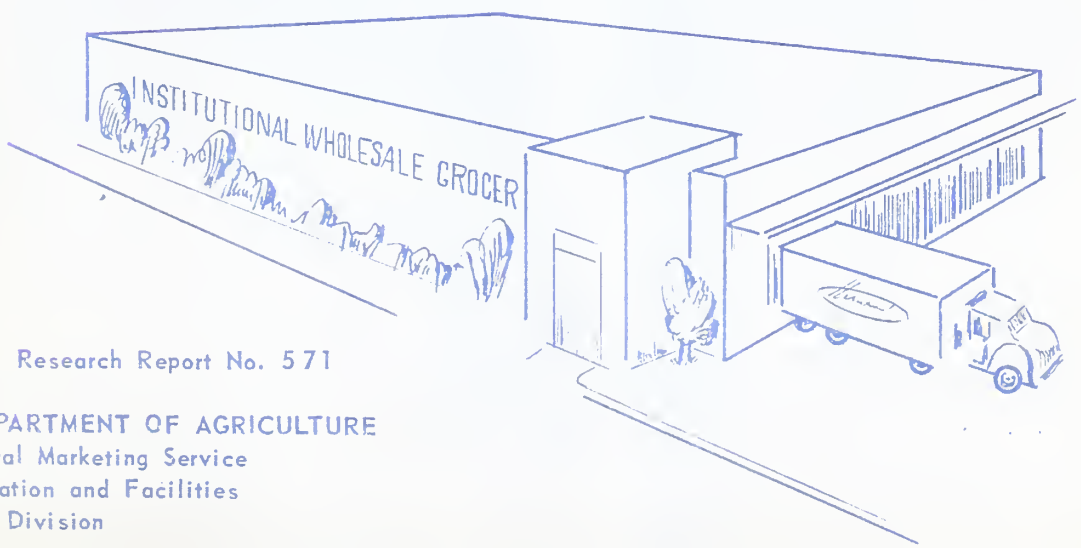
SERVICES OF INSTITUTIONAL WHOLESALE GROCERS

Opinions of Food-Service Operators



Marketing Research Report No. 571

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
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PREFACE

This study of food-service operators' appraisal of possible modifications in the operating procedures of institutional grocery wholesaling is part of a broad program of research aimed at reducing costs and increasing efficiency of food wholesaling and retailing.

Consumers spend about 25 percent of their food dollar for meals eaten away from home. In general, the food-service establishments that prepare and serve these meals are supplied by institutional grocery wholesalers as well as by meat, produce, and other specialty wholesalers.

Marketing costs for many food products are high and improvements in marketing practices and procedures offer possibilities for substantial savings. To the extent that these costs can be held down or reduced, their burden on both producers and consumers is reduced.

This study was conducted under the general direction of R. W. Hoecker, chief, Wholesaling and Retailing Research Branch, Transportation and Facilities Research Division, Agricultural Marketing Service. The data were collected and processed by Alderson Associates, Inc., under contract with the Department of Agriculture.

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SUMMARY

About 25 percent of the consumer's food dollar is spent in eating places outside the home--"food-service establishments"--ranging from school lunchrooms through hospital tray service to elaborate restaurants. This report examines the feasibility of adapting voluntary group wholesaling services to the food-service industry, to help reduce grocery (items other than fresh or frozen foods) wholesaling costs, and to improve food-service efficiency and competitiveness.

A nationwide survey of 350 food-service operators of various classes shows that many of them would use special services, such as those supplied by many grocery wholesalers to retail food markets. These cost- and labor-saving services, include: Preprinted order forms; discounts for quantity buying; accounting and cost-control; enlarged lines of merchandise, to supply more of the customers' needs; group advertising and promotion; portion counts and costs; and menu and recipe planning. To achieve best results, these services must be used together.

This report, a summary of the survey, shows that special wholesaling services have not been available to most food-service operators, and that many did not understand their potential value. In contrast to the large movement of grocery items through supermarkets, grocery needs of food-service operators (especially of the smaller ones, who are the majority) are small. It is believed, however, that the wholesaler who services a number of such food-service customers can provide them with improved services and lower prices if he can supply his customers with most or all of their grocery needs. Respondents in the survey bought from an average of nearly 19 wholesalers, and of the 19 wholesalers, more than 4 were grocery wholesalers.

Many of the operators surveyed wanted fill-in orders delivered as needed; they did not realize the high cost of this service to the wholesaler and, consequently, to them. Nearly three-fourths of the operators were not offered quantity discounts based on total order size, although more than half expressed a favorable attitude toward such discounts. Forty-four percent of the respondents favored the idea of wholesalers offering a cost-control and accounting service to their customers, even though virtually none of them had received such help from their wholesalers.

The main differences in the desire of food-service operators to have special wholesaling services were in type and size of establishment. In general, small places wanted services, and the chain and large places did not.

The preprinted order form, for example, reduces the cost of ordertaking. It serves as a continuous reminder for the wholesaler in the food-service establishment. It also conveys information on prices, and savings to be derived from quantity discount pricing. Both kinds of information are useful for menu planning and for reordering.

The graduated quantity discount on the individual order would provide incentive for the food-service operator to buy in ways that permit reduction of wholesale operating costs. Better planning and concentration of purchases would result in larger order sizes to the wholesaler. Larger order sizes would lower: Order

processing costs in the wholesaler's office; order-selection and shipping costs at the warehouse; and order delivery costs, because costs are spread over a larger volume of merchandise in each operation. These two operating procedures would increase the wholesaler's interest in the individual customer, and encourage the wholesaler to further improve his operating efficiency. The wholesaler would sell more to each customer, and be impelled to offer better sales service to his customers.

The respondents in this study repeatedly asked for better sales service. When they were asked how the wholesaler could make it easier to buy the right quantity of products, 26 percent suggested better sales service and 42 percent suggested better product information. When they were asked to suggest ways in which wholesalers could help in their merchandising and other operations, most of the respondents who made suggestions asked for more information of various kinds. Using an order form would free the salesmen from the time-consuming function of taking orders; sales time would then be available to provide the sales service requested.

Because this report is limited to presenting the results of an opinion survey, no conclusions are drawn nor recommendations made, beyond outlining a pilot study of grocery wholesaling services to food-service operators. The study will be based on the recognized needs that appeared in the survey, as well as the unrecognized needs, where the operator must be shown that benefits will occur. The project will be in operation with one institutional grocery wholesaler who will apply improved procedures and more services. An attempt will be made to reduce operating costs through improved warehousing methods, delivery methods, and office procedures. After that, a program will begin, incorporating preprinted order forms, quantity discounts, reduced credit terms, with improved service that will include recipe and menu planning, cost control, layout and equipment, and work methods.

Institutional grocery wholesalers may, by studying the results and opinions in the survey, independently decide which of the services may be needed and wanted in their particular areas.

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BACKGROUND

The food-service industry is the part of the food-distribution industry that prepares and sells meals to the consumer. It converts food products into partial or complete meals, ready to be eaten. Food-service establishments range from hotel dining rooms to hospital food service, from elaborate dinner restaurants to in-plant food service, and from public cafeterias to school lunchrooms. Some establishments offer a broad variety of selections; others feature a limited menu. Approximately 25 percent of the consumer's food dollar is spent with the food-service industry.

Compared with the other major part of the retail-food distribution industry--food stores--operating costs are high in the food-service industry. Labor costs, as a percentage of sales, are three to four times as high in eating places as those in grocery stores. Faced with rising wage rates and customer resistance to increased prices, food-service operators have a strong incentive to control their costs. Reducing costs of purchasing food, which are between 35 and 50 percent of sales, offers one opportunity for holding down marketing costs.

Tremendous changes have occurred in grocery wholesaling to retail food stores during the last 30 years. Many wholesalers have improved their services to voluntary group customers, resulting in reduction of wholesale operating costs and helping improve the operating efficiency and competitive effectiveness of the food-store customers. They have:

Adopted the preprinted order form to reduce the cost of taking orders. Become specialists in retail merchandising and operation.

Adapted their pricing structures to encourage concentration of purchases from their customers.

Arranged for specialized accounting services for their customers, to increase the usefulness of accounting records and to reduce accounting costs.

1/ Formerly with the Agricultural Marketing Service.

Arranged to provide a full line of both perishable and nonperishable merchandise for their customers, to assure an efficient supply of stock for all departments in the store.

Provided group advertising and promotion, to reduce the cost and increase the effectiveness of stimulating consumer interest in their customers' stores.

With these services and the formation of voluntary and co-operative groups, the percentage of U. S. retail food-store sales by affiliated independent retailers increased from 29 percent in 1947 to 49 percent in 1961 (7). 2/

Many pressures which stimulated the initiation of these changes in the grocery wholesaler-food store market are beginning to appear in the institutional grocery wholesaler-food service field. However, the wholesaler food-service field is fundamentally different from the wholesaler food-store market field. Food stores buy for resale, whereas food-service units buy for the preparation and sale of meals. The average grocery buying potential is much smaller for the food-service unit than for the food store. There is more variation in mode of operation among food service units than among food stores. Purchases are a smaller share of total costs in a food-service unit than in a food store. Therefore, questions arise regarding to what extent and in what ways changed operating practices, similar to those proven procedures in the grocery wholesaler food-store market, would be applicable in the grocery wholesaler's food-service market. Many institutional grocery wholesalers want the answers to these questions.

The objective of this study was to obtain an appraisal and evaluation from selected food-service operators of the feasibility of introducing improved and additional services and procedures in institutional grocery wholesaling, similar to those proven successful in grocery wholesaling to food stores.

Note: In this report, "grocery" is not used in the general sense, but as it is used in the food-distribution industry, but to denote nonperishable goods.

RANGE OF THE SURVEY

Appraisals and evaluations were obtained by interview with 350 food-service operators 3/ in eight cities in the United States, including cities in the Northeast, South, North Central, and West. Respondents were selected to include those who were not only successful in their own businesses, but who were also willing and able to give carefully considered answers to the questions. The food-service executives interviewed were selected with the close advisory assistance of hotel and restaurant association executives.

Respondents in the survey included: 175 table-service restaurants; 95 hotel restaurants; 46 cafeterias; and 34 employee food-service operations. The size

2/ Underlined figures in parentheses refer to Literature Cited, page 67.

3/ Throughout this report, the 350 food-service operators are referred to as respondents.

of respondent establishments was based on 1959 annual sales, exclusive of alcoholic beverages. A group of 154 responents was classified as large, with annual sales in excess of $500,000; 56 as medium, with sales between $300,000 and $500,000; and 23 as small, with sales less than $300,000 and more than $50,000. The annual business volume was not obtained from 17 firms.

More than 75 percent of the food-service establishments in the country are smaller than the smallest establishments covered by the survey. The survey will, therefore, reflect the thinking of the larger firms in the industry.

In many tables and tabulations, the answers total more than the number of respondents, because some of the respondents gave more than one answer.

PROCUREMENT OF MERCHANDISE

Food costs in food-service establishments amount to between 35 and 50 percent of sales, so food procurement is important. Most of the food is purchased from wholesalers.

Number of Wholesalers

Food-service operators usually purchase from a large number of wholesalers. Because of commodity specialization by suppliers, the operator has to buy from several kinds of wholesalers to get the necessary selection of foods. Operators usually buy from more than one wholesaler of each kind. Table 1 shows respondents in this study, who used the commodity lines listed, patronized an average of nearly 19 wholesalers. They bought groceries and meat from more than four wholesalers for each commodity, on the average.

Table 1.--Number of respondents buying from one or more wholesalers for each line of merchandise during a 3-month period

Type of wholesalers	Average no. of wholesalers supplying each respondent	No. of respondents buying from following numbers of wholesalers: 1	2	3	4 or more	Total respondents 1/
	No.	No.	No.	No.	No.	No.
Grocery	4.2	36	69	94	151	350
Meat, fresh and frozen	4.1	21	56	75	198	350
Fish, fresh smoked and frozen	2.0	100	159	61	22	342
Poultry, fresh and frozen	1.9	138	121	57	24	340
Produce	2.3	112	117	73	48	350
Frozen fruits, vegetables and juices	2.1	96	128	72	24	320
Dairy products	2.2	130	114	56	50	350
Total	18.8					

1/ Total is less than 350 in some cases because some of the operators did not use certain types of commodities.

Purchasing from numerous suppliers complicates procurement for the food-service operator, by increasing the number of orders he must place, the number of times he must receive orders, and the number of times he must check and pay invoices. It also tends to reduce the order size that any given wholesaler can fill and deliver. Accordingly, the study explored the customers' attitude toward the grocery wholesalers combining lines to enable them to increase order sizes.

Extent of Purchasing Nongrocery Lines From Grocery Wholesalers

Relatively few of the 350 respondents were currently purchasing nongrocery lines from their main grocery wholesaler. The following tabulation shows the percentage of respondents who obtain certain nongrocery lines from their main grocery wholesaler:

Commodity line	Percent of respondents
Frozen fruits, vegetables, or juices	10
Smoked or nonrefrigerated meats	4
Smoked or frozen fish	4
Dairy products	2
Poultry products	2
Produce	1

Frozen fruits, vegetables, or juices were the most important nongrocery line respondents purchased from their main grocery wholesaler. Two percent of the respondents were purchasing 40 percent or more of their frozen foods from their main grocery wholesaler, as indicated in table 2.

Table 2.--Purchases of nongrocery lines from main grocery wholesalers

Percentage purchased from main grocery wholesaler	Respondents purchasing--					
	Frozen fruits, vegetables or juices	Smoked or nonrefrigerated meats	Smoked or frozen fish	Dairy products	Poultry products	Produce
	Percent	Percent	Percent	Percent	Percent	Percent
Less than 11	4	2	2	2	0	0
11 - 40	2	0	1	0	0	0
41 - 70	1	0	0	0	0	0
71 - 100	1	0	0	0	2	1
Don't know	2	2	1	0	0	0
Total	10	4	4	2	2	1

The remainder of the commodities was being purchased in token quantities only, from the main grocery wholesaler, except that 7 of the 350 respondents purchased over 70 percent of their poultry requirements and 4 purchased over 70 percent of their produce requirements from that source. Very few of the respondents have had experience with buying nongrocery lines from their wholesale grocers, because the wholesalers have not stocked these lines.

Usefulness of Buying Nongrocery Lines from Grocery Wholesalers

Respondents were asked if it would help them if the grocery wholesaler supplied them with smoked and nonrefrigerated meats, produce, and frozen foods. Table 3 shows only a small proportion felt it would be helpful. But among the 280 respondents who used frozen foods and did not buy frozen foods from their main grocery wholesaler, 20 percent felt it would help if their grocery wholesaler could supply them, and 10 percent of the 335 respondents not buying produce from their main grocery wholesaler felt the same way.

Table 3.--Attitudes of food-service operators toward buying certain nongrocery lines from main grocery wholesalers

(100 percent equals 350)

Responses	Attitudes toward purchase of--		
	Smoked or non-refrigerated meats	Produce	Frozen vegetables, or juices
	Percent	Percent	Percent
Do not use the commodity	17	3	10
Main grocery wholesaler supplies commodity	4	1	10
Would be helpful if grocery wholesaler did supply	7	9	16
Would not be helpful if main grocery wholesaler supplied	72	87	64
Total	100	100	100

Reasons they gave for feeling it would help to be supplied by the grocery wholesaler showed the importance of costs to the respondents. Table 4 shows reduction of buying costs, through reducing the numbers of purchases and bookkeeping transactions, was of overwhelming importance in the minds of these respondents. Of third importance among the answers was another element of cost to the respondents themselves--the costs of receiving merchandise. They felt that receiving from a smaller number of vendors would reduce total costs of receiving. Of second importance to these respondents was the opinion that buying from the grocery wholesaler would enable them to buy at lower prices or else get better service for the same price.

But the respondents had two viewpoints on combining lines. One group felt that if the grocery wholesaler offered the nongrocery item, there would be one more vendor with whom they could bargain for price. Another group felt, that by combining lines, the wholesaling costs could be reduced--delivery costs were mentioned by several. They felt they would benefit as these reduced costs were

passed on to them through lower prices. Also, the manner in which they mentioned improvements in service indicates that some of the respondents realized as the wholesaler becomes the main source of supply for the customer, his motivation to render good service is increased.

Table 4.--Respondents' reasons for wanting main grocery wholesalers to supply certain nongrocery commodities

Reasons	Nongrocery commodities		
	Smoked or non-refrigerated meats	Produce	Frozen vegetables, or juices
	Percent	Percent	Percent
Would reduce costs of buying	45	50	50
Would reduce cost of receiving	22	10	11
Opportunity to get better price or service	22	30	22
Not a specialty, grocers could handle it	0	0	6
Other reasons	11	10	11
Total	100	100	100

Those respondents who felt it would not help them to obtain those nongrocery commodities from the grocery wholesaler were asked why not. Their reasons are shown in table 5. Most frequently mentioned was that wholesalers specializing in the nongrocery line could supply greater variety and better quality than the grocery wholesaler who carried the nongrocery line.

Table 5.--Respondents' reasons why they would not want main grocery wholesalers, to supply selected nongrocery commodities

Reasons	Nongrocery commodities		
	Smoked or non-refrigerated	Produce	Frozen fruits vegetables & juices
	Percent	Percent	Percent
Better variety and quality from specialists	51	42	42
Better service from specialists	16	25	19
Require more frequent deliveries on commodity	6	5	0
Better price from specialist	12	7	14
Good policy to spread business to several vendors	4	10	14
No advantage in buying from grocer	8	5	6
Other	3	6	5
Total	100	100	100
Number of respondents	252	304	273

This appears to be based partly upon the supposition that the grocery wholesaler would have neither the facilities nor the personnel to offer variety and quality

on a par with the specialty wholesaler. As one respondent put it, "It would take a very wealthy company to offer a complete line." These respondents appeared to visualize the grocery wholesaler stocking and operating the nongrocery lines as a sideline, without attending to the customers' needs.

Distribution of Grocery Purchases

Food-service operators in this study purchased their grocery requirements from an average of more than 4 institutional wholesale grocers. Some distributed their purchases widely; others concentrated their purchases with a main institutional grocery wholesaler.

Tendency to Concentrate Grocery Purchases

To determine how respondents distributed their purchases, they were asked what percentage of their groceries were purchased from the main grocery wholesaler. The percentages of purchases from their main grocery wholesaler are:

Percentage of groceries purchased from main wholesaler	Percent of respondents
1 - 10	2
11 - 20	5
21 - 30	9
31 - 40	12
41 - 50	15
51 - 60	13
61 - 70	8
71 - 80	11
81 - 90	11
91 - 100	13
Undetermined	1
Total	100

This tabulation shows a great variation in concentration of purchases. Half of them purchased 56 percent or less of their requirements from their main wholesaler. Twenty-four percent of them bought 85 percent or more of their requirements from the main grocery wholesaler. There was a widespread tendency to distribute purchases among two or more wholesalers.

There was little difference in concentration of purchases between chain and nonchain establishments. 5/ Small establishments tended to concentrate their purchases; large establishments were inclined to distribute them. Table 6 indicates that 32 percent of the medium establishments, and 24 percent of the small establishments bought 80 percent or more from their main grocery wholesaler; only 16 percent of the large establishments did so. Half the small establishments bought 64 percent or less of their groceries from the main wholesaler; half the medium establishments bought 55 percent or less, and half the large establishments bought only 50 percent or less.

5/ A chain is considered to be a firm which operates four or more separate food-service establishments.

Table 6.--Comparison of grocery purchases from main wholesaler by establishment size

Percent purchased from main wholesaler	Size of establishment 1/			Average
	Large	Medium	Small	
	Percent	Percent	Percent	Percent
1 - 20	10	6	3	7
21 - 40	26	16	21	21
41 - 60	30	33	24	28
61 - 80	17	13	26	19
81 - 100	16	32	24	24
Undetermined	1	0	2	1
Total	100	100	100	100

1/ Establishments include 154 large, 56 medium, 123 small, and 17 of undetermined size.

Reasons for Not Concentrating Purchases

In this study, a food-service operator was considered to concentrate his purchases if he bought 85 percent or more of his groceries from his main wholesaler. Twenty-four percent of the 350 respondents reported doing so. The remaining 265 respondents were asked why they did not; 6/ their reasons are shown in table 7. Price (44 percent) was the main reason for not concentrating purchases. Most respondents who mentioned price felt that if they dealt with several suppliers, they could bargain better.

Table 7.--Reasons for not concentrating grocery purchases with main wholesaler and percentage of purchases from him

Percent purchased from main grocery wholesaler	Reasons for not concentrating purchases 1/						
	Better prices	Variety and quality	House policy	Better service	Friendship with wholesaler	Total	
	Percent	Percent	Percent	Percent	Percent	No.	Percent
1 - 20	44	21	32	-	4	28	100
21 - 40	44	34	13	4	5	110	100
41 - 60	44	37	11	6	2	151	100
61 - 80	46	41	8	4	1	90	100
Total or average	44	36	12	5	3	379	100

1/ Source: Appendix table 34.

6/ Only 265 remained, because 81 did concentrate their purchases, and the extent of concentration was not determined for 4 respondents.

The second most frequently mentioned reason (36 percent) for not concentrating purchases was the need for greater selection, variety, and/or quality of merchandise than was offered by their main grocery wholesaler. This should not be interpreted to mean that these respondents wanted to sacrifice quality to obtain lower prices; they repeatedly made it clear that they were not willing to do so. Their reasoning was that equivalent quality was available from more than one source, so that price was the reason for shifting from one supplier to another.

It was house policy for more than 12 percent to buy from more than one supplier. Most respondents who mentioned this felt that the competition among suppliers was beneficial. However, some wanted to maintain multiple suppliers as protection against war shortages of merchandise, strikes, and other such imponderables.

If the category "house policy" is included with "better prices", price is of greater concern to those who do not concentrate purchases. These two reasons are in reality the same in many instances. They constitute 75 percent of the reasons for purchasing 20 percent or less from their main wholesalers, but only 54 percent in the 61-to-80-percent range. Variety and quality increase in importance in this range. This supports the conclusion that when the price factor is dominant in causing respondents to distribute their purchases, they do not concentrate with one wholesaler. When they are confident of a particular wholesaler's prices, they tend to concentrate their purchases, except for items or grades which their main wholesaler does not stock.

There was little difference in the reasons given by chain and nonchain establishments for not concentrating purchases (table 8). Small establishments gave less weight to price and greater weight to service and friendship with wholesalers than large and medium-size establishments did.

Designation of Canned-Goods Quality

As shown in table 9, over half the respondents in this study used both brands and grades to specify the quality of the canned goods they bought. A larger proportion of chain operators mentioned both brands and grades than did independent operators. Brands alone ranked second as a means of specifying quality, but independents gave far more emphasis to this than did chains. A larger proportion of chains specified quality by grades alone than by brand alone.

Half or more of all three sizes of establishments used both brands and grades to specify quality in buying canned goods (table 10).

Table 8.--Reasons for not concentrating purchases, by kind and size of establishment

Reasons	Kind of establishment						Size of establishment					
	Chain		Nonchain		Total		Large		Medium		Small	
	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.	No.	Pct.
Price	57	47	108	43	168	44	81	46	26	49	53	38
Variety and quality	40	33	96	38	137	36	68	38	12	23	53	38
House policy	13	11	33	13	47	12	16	9	12	23	18	13
Better service and friendship with wholesaler	8	6	18	7	27	7	10	6	3	5	14	11
Miscellaneous	4	3	-	-	4	1	2	1	-	-	-	-
Total answers	122	100	225	100	383	100	177	100	53	100	138	100
Total respondents 1/	81		180		265		127		38		91	

1/ Includes 4 respondents whose kind and 9 respondents whose size of establishment is undetermined.

Table 9.--Methods used by chain and independent respondents to specify canned-goods quality

Specification	Total 1/ (350 respondents)	Chain (101 respondents)	Independent (245 respondents)
	Percent	Percent	Percent
Brands and grades	54	58	53
Brands	24	14	28
Grades	19	24	16
Other	3	4	3
Total	100	100	100

1/ Includes 4 respondents whose kind of establishment is undetermined.

Table 10.--Methods used to specify canned-goods quality by size of establishment

Specification	154 large establishments	56 medium establishments	123 small establishments
	Percent	Percent	Percent
Brands and grades	59	50	50
Brands	22	21	27
Grades	16	27	18
Other	3	2	5
Total	100	100	100

Adequacy of Label Information

Because brand is considered to be such an important means of specifying quality, the adequacy of brand label information was questioned on five specific commodities. Most respondents who used them said that the label information on these commodities was adequate, as indicated in the following tabulation:

Commodity	Percent saying label information is adequate 1/
Asparagus	84
Fruit cocktail	79
Green beans	77
Peach halves	77
Tomatoes	76

1/ Source: Appendix table 35

However, a substantial number of respondents thought label information was inadequate. Most would like additional quality information (table 11). Some sort of standard grade information was requested by many of these respondents; some asked for government grades on the labels. A fairly common request was for information as to where the commodity was grown, date of pack, and the identity of the packer by which the buyer might judge the quality of the contents. For example, one respondent said, "On peaches, it would be advisable to have the count, the size of the peach, the concentration of the syrup, where the peach was grown, and whether it is fancy, choice, or standard." Of fruit cocktail, another said, "I would like to have a breakdown of the fruit and whether the syrup is light, medium, or heavy." Regarding asparagus, another commented, "It is important to know where it was grown, how many tips, how many center cuts, and the drained weight. So many times we use it for salads, and there are not many tips."

Respondents considered the approximate number of servings or similar information on the can label more useful than the volume of the can. On peach-half can labels, the count per can indicates the number of servings. The section, "Portion-Count Information," discusses this in more detail.

Table 11.--Additional label information desired for five canned commodities

Kinds of information desired	Commodity				
	Tomatoes	Peach halves	Green beans	Fruit cocktail	Asparagus
	Percent	Percent	Percent	Percent	Percent
Quality information:					
Detailed, standardized description of contents 1/	29	22	11	41	23
Government grade	9	8	22	9	12
Where grown, date of pack, packer	12	5	11	3	8
Additional quality designation	3	3	8	3	7
Quantity information:					
Drained weight	38	8	27	31	19
Count per can or number servings	6	49	20	12	31
Other and kind not specified	3	5	1	1	0
Total	100	100	100	100	100
	Number	Number	Number	Number	Number
Total respondents (out of 350)	80	72	63	52	34
Total mentions	146	117	102	79	56

1/ The description should include the elements important to the particular commodity.

Selection of Quality for Purpose

Despite the fact that about 80 percent of the respondents found label information adequate on the five commodities, many had suggestions for the grocery wholesaler or packer to make it easier for them to buy the right quality of canned goods to meet their needs. The leading suggestion was to improve product information, as shown in the following tabulation:

How wholesalers can help customers to buy the right quality	Percent of respondents 1/
Improved product information	42
Improved sales service	26
Nothing; this is the customer's responsibility	21
Other and unspecified	11
Total	100

1/ Source: Appendix table 36.

All three sizes of establishments agreed on the significance of improved sales service. Between 25 and 30 percent of them suggested this. Their viewpoints are shown by breaking their suggestions into greater detail (table 12).

Table 12.--Food-service operators' suggestions as to how grocery wholesalers and packers could help them buy the right quality of canned foods

Kinds of suggestions	Responses	
	Number	Percent
Give improved product information:		
Detailed, standardized labeling of contents	85	21
Standardized grade	52	13
Standardized quality	32	8
Give improved sales service:		
Better knowledge and presentation of product	39	10
Better information on new developments	22	5
Better knowledge of customer's needs or specification	14	3
Better information on prices	3	1
More samples for testing	28	7
Other, miscellaneous	9	2
Nothing	84	21
Don't know or undetermined 1/	28	7
Don't use canned foods 1/	6	2
Total	2/402	100

1/ These responses are negative in nature and were given by respondents who gave single answers only. They accounted for 118 of the 350 respondents. Thus, the remaining 232 respondents gave 284 suggestions or 1.2 suggestions each.

2/ These 402 responses came from 350 respondents. Some gave multiple suggestions.

Better product information was suggested by 42 percent of the responses. "Detailed, standardized labeling of contents" and "standardized grade," together accounted for 34 percent of the responses; both requested more precise and extensive description of the product. "Standardized quality" suggests greater uniformity within any given brand or grade, as well as description of quality. The frequency with which these three factors were mentioned indicates that a real problem exists in finding the right quality for a specific use.

The second major heading in table 12, "Give improved sales service," accounted for 26 percent of the responses. This category included specific suggestions for the salesman to more effectively match his product with the specific need of the customer. "Better knowledge and presentation of the product," means essentially the same, and implies that the salesman should know the buyer's needs. This suggestion (10 percent of the responses) was the leading one for improved sales service. "Better knowledge of customer's needs or specifications" (3 percent of the responses) requires the salesman to understand the customer's merchandising policies and production processes. The salesman would know why the customer's specifications are as they are and what the implied

specifications are when the specifications are not spelled out. The salesman should know what modifications in expressed or implied specifications would be acceptable, if lower merchandise or processing costs would result from such modifications.

"Better information on new developments," such as new products and new trends, accounted for 5 percent of the responses. If the salesman knows his customer's needs, he can effectively present the new products that the customer can use to advantage.

The suggestions for more samples for testing is different from the other suggestions in this category and places less demand upon the salesman. Carried to extremes, the salesman would say, "This is what we have to sell. Try a free sample. If you like it, we will sell you some." Clearly, the respondents suggesting this did not intend taking it to such extremes. If carelessly practiced, sampling can be a costly and ineffective sales tool. The busy food-service operator has little time to spend in systematic trials of samples. On the other hand, if carefully used, sampling can be very effective in helping customers buy intelligently.

Twenty-one percent of the responses (24 percent of the respondents) made no suggestion as to how wholesalers and packers could make it easier to buy the correct quality. About half of these respondents thought that wholesalers were doing an excellent job in this respect, and no reasonable suggestion could be made to improve it. The other half took the position that buying the right quality was the responsibility of the buyer; he could not reasonably expect help from suppliers in this respect.

"Other" in table 12 includes: "Have a display room at the warehouse where we could go and select the appropriate cut and type;" "hold a food show at the warehouse;" "send out a current price list;" and "use a preprinted order form." 10/

Portion-Count Information

The food-service operator sells food by the serving. The critical measure of quantity in his procurement of food products is yield in number of servings, not number of gallons or pounds. Some wholesalers have provided customers with various measures for converting volume contents of packages into number of servings, or container cost into cost per serving (2). Respondents reported they had received such portion-count information on canned fruits and vegetables from a number of sources:

10/ This suggestion was made before the interviewer reached the part of the questionnaire dealing with the preprinted order form.

Source of Information	Number of Respondents
Grocery wholesalers	179
Manufacturers or processors	66
Brokers	21
Others	14
Not received	126

Usefulness

Because there is so much variation in the ways that food products are used, and in sizes of servings, it is sometimes questionable that portion-count information is useful. If it is useful and is to be supplied, the form in which it is provided must be determined. Of 224 respondents who received portion-count information, 87 percent (195) said that it was useful, 12 percent said that they did not know whether to make a blanket statement or not.

In general, portion-count information was useful because it converted materials purchases into sales units, and provided one important element in portion control. One respondent who reported "don't know," attempted to put his evaluation into perspective with this comment: "My answer to that would have to be yes and no. On instant potatoes for example, or peas and most vegetables, you have no control. They are uncontrollable. The human element of efficiency in the serving line counts more. You might say that out of 100 ounces you would get 10 servings of 10 ounces each, but you only get 9. Weight is more important than portion count printed on the can on this kind of thing." This respondent seems to point out the usefulness of portion-count information under some conditions, but cautions against the idea that such information would assure an effective portion-control program. The 224 operators who reported the information useful to them would no doubt applaud his comment.

Forms In Which Portion Count Is Received

Respondents reported that they had received portion counts in several forms; some individuals in only a single form, and some in two or more forms (table 13). The two forms in which it was most commonly received were in pamphlet or booklet form, and printed on the label. Regardless of the form in which they received it, about 87 percent said it was useful, and 13 percent said it was not useful.

Table 13.--Forms in which food-service operators have received portion-count information

Form in which received	Respondents who received	
	Number	Percent
Received in this form only	120	54
Pamphlets, single sheets, and so forth	69	31
Printed on the label of the can	41	19
Verbally	9	4
Printed on the case	1	0
Received in two or more forms	103	46
Pamphlets, single sheets, and so forth	75	34
Printed on the label of the can	92	41
Verbally	19	8
Printed on the case	24	11
Slide rule	3	1
Other	5	2
Undetermined	1	0
Total	224	100

When respondents were asked which type of portion-count information would be most helpful, they tended to prefer the form in which they had received it. The breakdown of 224 respondents who had received portion-count information in each form is:

	Number of Respondents
Pamphlets, single sheets, etc.	148
Printed on the label	133
Verbally	30
Printed on the case	25
Other	8

The number who had received it in each form is of importance in interpreting their evaluation. Despite the tendency to prefer a familiar form, the strongest preference was for having the information printed on the label (table 14).

Almost half who had received such information preferred to have it printed on the label, and 68 percent of those who had received it in that form preferred it that way. A reason volunteered repeatedly by respondents was that the label gets into the kitchen, where the information should be used, whereas the information in other forms may stop in the stockroom or at the buyer's desk.

Table 14.--Preferred form for portion-count information 1/

Forms in which information was received	Preferred form				
	Printed on the label	Pamphlets, sheets, etc.	Other miscellaneous forms	None is helpful	Total
	Percent	Percent	Percent	Percent	Percent
On label	68	11	12	9	100
Pamphlets	35	43	9	13	100
Verbally	40	7	46	7	100
Other	39	18	40	3	100
All forms	46	29	13	12	100

1/ Source: Appendix table 37.

The second strongest preference was for the information in booklet or pamphlet form. This preference was expressed most strongly by those who had received it in this form--43 percent said they preferred the pamphlet form. Relatively few who had not received the booklet form would prefer that form.

Few respondents who had received portion-count information felt the verbal or other forms were most helpful. However, 46 percent who had received the information verbally preferred to have it this way. Forty percent who had received the information in other forms said they were most helpful, except that half of these 40 percent said all forms were helpful.

These data show that portion-count information is definitely desired by food-service operators. They prefer it printed on the label of the can. However, costs and inability to control label information on national brands may make it more feasible to provide it in pamphlet form, which is also acceptable to food-service operators. The pamphlet form offers more flexibility in the kinds and amount of information that can be presented, such as cost per serving, as well as number of servings.

These data reveal that food-service operators are strongly interested in having information by which they can convert the purchase unit into its sales unit equivalent. They must have drained-weight information for many canned goods to use in portion control, yet many manufacturers and wholesalers hesitate to print drained-weight information on the label. They point out that "drained-weight" is an ambiguous term. Absolute accuracy they say, can scarcely be achieved in measuring drained-weight, because of variations in the commodity, the canning process, and the reaction of the commodity during storage. The cost of obtaining drained-weight information as precise as the net-weight information required by law would be substantial. This apparent dilemma could be solved, because food-service operators really need good approximation, rather than precise measurements, for their portion-control work. A difference of 2 ounces, plus or minus, drained-weight may meet the need, whereas such an approximation would not fulfill the legal requirement for net weight.

Recipe Service

Respondents in the study were asked whether their main grocery wholesaler gave them any help in getting new recipes. Of 350 respondents, 132 said they had received such assistance.

Kinds of Help Received

The kinds of help received from the main grocery wholesaler by 132 food-service operators in obtaining new recipes are:

Kind of help	Percent of respondents receiving help
Recipe booklets, cards or brochures	48
Recipes from manufacturers	27
Recipe information for new products	17
Other recipe aids	6
Suggested new uses for products	5
Demonstrations	3
Magazines or periodicals	2
Ideas from other restaurants	1
Other	2
Undetermined	3

The kinds of help are not mutually exclusive; they represent the respondent's own impressions of the help he received. While many of the recipe booklets and cards came from manufacturers, trade associations, and trade publications serving the food-service field, the respondents did not identify them as such in the interviews. "Recipes from manufacturers" include only those respondents who received recipes from manufacturers through the wholesalers. Recipe information for new products undoubtedly originated almost entirely with manufacturers, but the prime importance to the respondents was that it concerned new products.

Usefulness of Recipes

Respondents who had received new recipes from their main grocery wholesaler indicated, in general, it was useful to them, as shown in table 15.

There was considerable difference in their attitudes toward the different kinds of information. All but one of the 22 respondents who had received information on new products said this was useful; and this one gave no response to the question because the interviewer overlooked it. While 86 percent who received recipe booklets, cards, or brochures said they were useful; 78 percent who received information they identified as coming from manufacturers said this was useful.

Table 15.--Usefulness of recipes

Kinds of new recipe information	Respondents saying information is--1/			
	Useful	Not useful	Other 2/	Total
	Percent	Percent	Percent	Percent
Recipes for new products	95	-	5	100
Recipe booklets, cards, brochures	86	11	3	100
Recipes from manufacturers	78	16	6	100
Other kinds 3/	77	8	15	100
Average all kinds	80	13	7	100

1/ Source: Appendix table 38.
2/ Includes undecided, don't know, and no response.
3/ Includes suggested use of products, demonstration, information from magazines, and other kinds.

More respondents from small and medium-size units said that the recipes were useful than did those from large units (table 16). Wholesalers are a more important source of such information for smaller operators, who cannot afford a specialized staff to assemble it from other sources (8). 11/ Yet they are large enough to feel the competitive need for menu variety, except in those cases of limited-menu units, such as steak houses.

Table 16.--Evaluation of new recipes, by size of business

Size of business	Percentage of respondents receiving new recipes reporting it--1/			
	Useful	Not useful	Other 2/	Total
	Percent	Percent	Percent	Percent
Large	71	21	8	100
Medium	86	14	-	100
Small	86	5	9	100
Average	80	13	7	100

1/ Source: Appendix 39.
2/ Includes undecided, don't know, and no response.

11/ These establishments are smaller than others interviewed in this study. However, 75 percent of the eating places in the United States are smaller than the smallest of them; 23 percent are in their size range; 1 percent are in the medium range; and 1 percent are in the large range.

Independent and chain establishments found the recipes equally useful, although both mentioned that their staff organizations provided this kind of information.

A larger percentage of small respondent establishments than large ones had received new recipes (table 17).

Table 17.--Sizes of respondent establishments who had received recipes from the main grocery wholesaler

Whether received	Size of establishment			Average 1/
	Large	Medium	Small	
	Percent	Percent	Percent	Percent
Received recipes	34	39	46	38
Had not received recipes	66	61	54	62
Total	100	100	100	100

1/ Does not include 17 respondents of undetermined size. Computed from appendix table 39 .

Recipe-Service Program

One wholesaler in each of two cities in which the study was conducted offered a small recipe-service program for a year to selected customers. This program had been devised and installed experimentally by a small group of institutional wholesalers as an aid to improve the competitive effectiveness of their customers. The program included a limited number of recipes with portion costs worked out, instructions on how to present each dish effectively in various kinds of establishments, and sales results obtained from each dish, when offered in a limited number of large city restaurants. This program had been discontinued a few months before the respondents were interviewed.

More than half the customers of the subject wholesalers--those who offered the special recipe service--received new recipe information; only one-third of the respondents in other cities had received it.

Large establishments constituted the greatest proportion of the respondent customers of subject wholesalers, so they led medium and small customers in receiving recipes from these wholesalers. In addition, subject wholesalers provided recipes to a larger share of their large respondent customers than other wholesalers did. Forty-eight percent of their large customers received recipes, compared with only 30 percent of the other large respondent establishments. Similarly, 64 percent of the medium-size unit customers of subject wholesalers were provided recipe service, compared with 29 percent of the other respondents.

Fifty-six percent of the small respondent customers of subject wholesalers got recipes, compared with 42 percent of the other respondents. So, the subject wholesalers were doing a more intensive job of extending recipe information, particularly among large and medium-size establishments.

Figure 1 shows the result of intensive work with large- and medium-size establishments by subject wholesalers on a recipe-service program. A much larger share of large and medium respondent customers of subject wholesalers found the program useful than did other respondents.

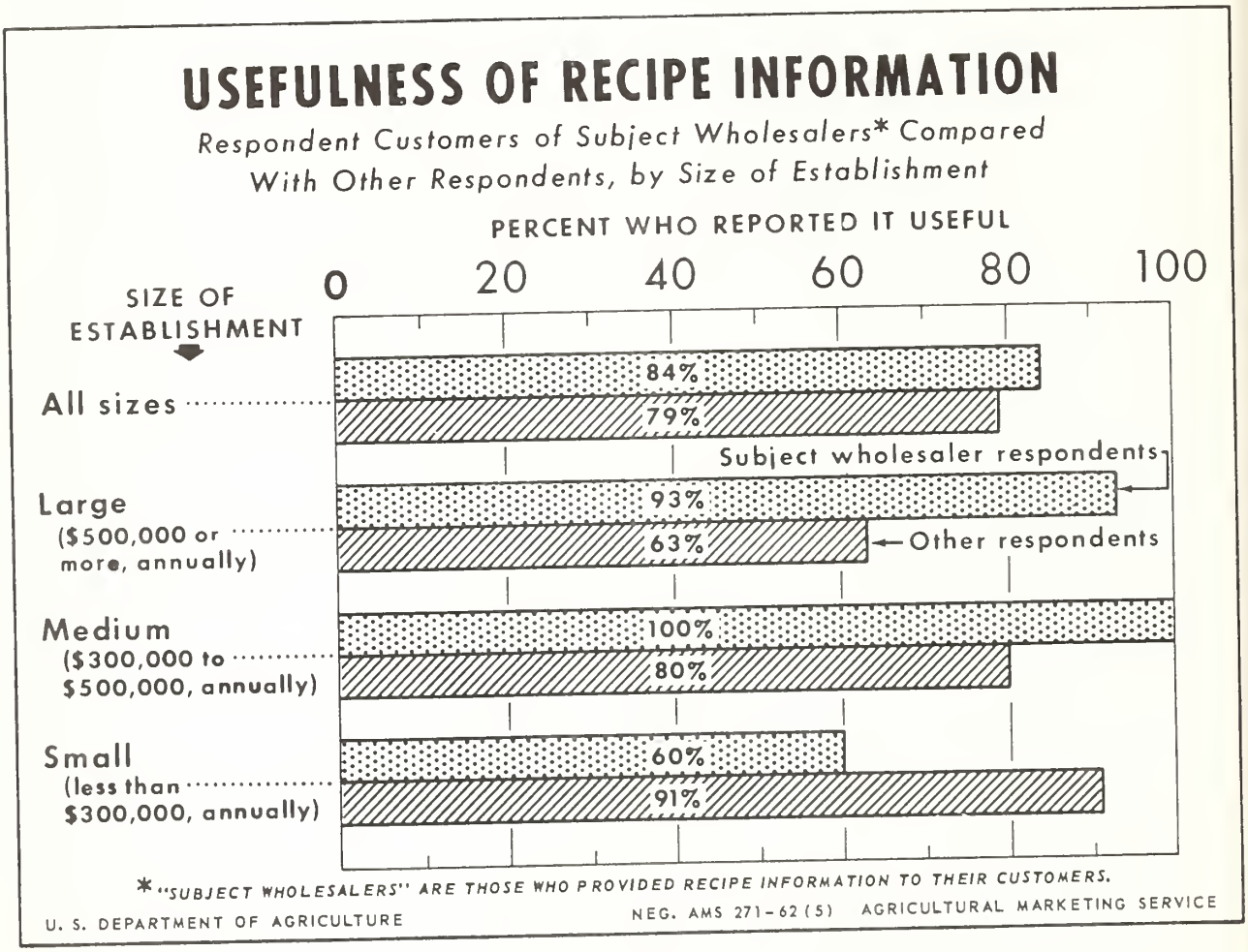

Figure 1.

However, a smaller percentage of small customers of subject wholesalers found recipe information useful--60 percent compared with 91 percent of the other respondents. This does not reflect upon the recipe-service program because most of the small respondents had not received the program; of the 26 who received the program, only one said it was not useful.

Appraisal of Pretested Recipes

Two questions that arise most frequently about a new recipe for food-service establishments are those of portion cost and salability. Perhaps wholesalers could provide answers to these questions more economically than an individual food-service operator. The wholesalers could test acceptance of the new recipe in a few of his customer establishments and then make the results available to all his customers. The cost of testing is spread over a larger base of sales. The next question is whether the answers determined in a few food-service units would be useful to all customers. Respondents in this study appraised the usefulness of portion-cost and customer acceptance information.

Portion-Costed Recipes from Wholesalers

Fifty-six percent of the respondents reported that recipes showing portion costs provided by wholesalers would be useful to them. A slightly larger percentage of chain respondents (59 percent) than nonchains (55 percent) reported the service would be helpful. Again, the helpfulness of this service increased progressively from large to small establishments. Sixty-one percent of the small establishments reported it would be helpful compared with only 53 percent of the large establishments.

Why would some respondents believe portion-costed recipes would be helpful while others do not? The reasons the 350 respondents gave for their evaluation and their relative importance are:

Evaluation and reason	Percent of respondents
Would be helpful	66
Saves time and expense for us	21
Gives us needed information about new ideas	17
Facilitates setting menu prices	17
Aids planning and cost control	5
Other reasons	5
Unspecified	1
Would not be helpful	35
Can do it better ourselves	23
This is left to the kitchen supervisors	6
Conditions vary too much	5
Inappropriate function for a wholesaler	1
Does not apply to this specialized business	9
Undecided, don't know	1

Twenty-one percent of the respondents said that it would save time and expense; 23 percent said that they could portion-cost better themselves. Both groups apparently now provide themselves with such information, but one favors letting the wholesaler do it to spread the cost over a broader sales base; those in the other prefers to continue to do it themselves. An important explanation of why the second group believed they can do the job better themselves is offered

by the 5 percent of the respondents who say that conditions vary too much for portion-costed recipes from wholesalers to be useful. The varying conditions are ingredient prices, which affect the accuracy of portion costs, and portion sizes.

Many respondents felt portion-costed recipes would help them in managing their operations. Some said such information would give them needed information and new ideas. Others thought it would be helpful in determining menu prices on new items. Five percent said the portion-cost information would help in cost control and planning, in menu planning, and in rejecting unprofitable items.

Nine percent of the respondents said that the portion-costed recipes from wholesalers would not help them because of the specialized nature of their business. Generally, they operated specialized menu houses, or used standardized menus, and had no use for new recipes.

Menu-Tested Recipes from Wholesalers

Respondents were asked if they wanted grocery wholesalers to accompany recipes with a statement of customer acceptance in restaurants where they had been tried. Fifty-seven percent said that it would be helpful and 40 percent said that it would not (table 18). There was very little difference in evaluation between chain and nonchain, or among large, medium, and small establishments.

Table 18.--Customer acceptance of recipes, by kind and size of establishment

Evaluation	Total 1/	Kind of establishment		Size of establishment		
		101 chain	245 nonchain	154 large	56 medium	123 small
	Percent	Percent	Percent	Percent	Percent	Percent
Would be helpful	57	59	55	57	59	57
Would not be helpful	40	36	42	40	39	37
Undecided don't know	3	5	3	3	2	6
Total	100	100	100	100	100	100

1/ Includes 4 whose kind and 17 whose size of establishment were undetermined.

Reasons given by 350 respondents for their evaluation of recipes showing customer acceptance are:

Evaluation and reasons	Percent of respondents	
Would be helpful		64
Gives idea of public acceptance without time and cost of testing	38	
Gives new ideas for menu	22	
If the degree of acceptance is shown for specified types of operation, clientele or geographic area	3	
Other	1	
Would not be helpful		40
Have limited, standardized menu	12	
Know our local customers tastes	9	
Select and test recipes ourselves	8	
Chef has his own recipes	6	
Obtain this information from preferable source	2	
Other	3	
Undecided, don't know		3

Customer-acceptance information was considered useful mainly because it saved the cost of testing. "New ideas for the menu" was mentioned by 22 percent of the respondents. These respondents were apparently more impressed with the recipes than with the customer-acceptance information. Some respondents mentioned both reasons.

Three percent of the respondents made their approval of the customer-acceptance information conditional. Some said it would help if it showed that the particular recipes had been accepted, or sold so many orders per hundred customers, in a type of operation similar to their own. Some respondents said the type of clientele receiving the recipe favorably must be shown for the information to be useful. Others wanted to know about geographic areas; dishes that were quite acceptable in certain areas would not be in others.

Respondents who said recipes showing customer acceptance would not be helpful had a variety of reasons. The most frequently mentioned reason was that the respondents used a limited or standardized menu, and had no need for new recipes. Six percent said that their chef preferred his own recipes.

Eight percent of the respondents felt that they could select and test new recipes more effectively than others could do it for them. That they know their own customers' tastes better than anyone else was the reason given by 9 percent of the respondents. This group evidently felt, as did the other one, that they could test more effectively than an organization could. These 17 percent of the respondents shared the feelings of those who said that the information would be useful if it showed the types of establishment, the clientele, and the geographic area. A menu item that might be attractive to a restaurant featuring a Scandinavian menu in Minneapolis, would probably have little appeal for a Mexican restaurant in Albuquerque, although both might be interested in menu variety. However, two cafeterias operating in these same cities may both find a new menu item attractive. One successful cafeteria chain operates in cities as widely separated as Minneapolis and Wichita, while another uses many of the same menu items from Washington to Atlanta.

The conclusion appears to be warranted that few of these respondents would regard pretest information as final for their own establishments, but most feel that the information would indicate recipes that have a reasonable chance for success in their establishments. It would help them eliminate probable failures and help them find the ones which might profitably fit their price structure and their clientele's taste preferences. This is especially true for those who must incorporate variety into their menus to maintain the interest of regular customers.

Menu Planning Service

An essential step in procurement of merchandise is menu planning. The menu is the first step in the production plan. Materials requirements are determined on the basis of the number of units of each menu item to be produced.

If the menu is too limited or does not appeal to local tastes, it will not attract customers. If the menu is too broad, production costs may be so high that profitable operation is impossible. For these reasons, institutional grocery wholesalers have a strong interest in effective menu planning by their food-service customers. If food-service operators have few customers, they will plan their purchases poorly, causing excessive inventory of slow-moving items, and frequent small, emergency orders. If they fail on the second count, they will have to charge excessively high prices or operate at a loss. Either situation results in low sales and high credit risk for the wholesaler. What might grocery wholesalers do to help their customers improve menu planning?

Menu Planning Help Received by Respondents

Few respondents had received menu planning assistance. Those who had done so received it from a variety of sources. Manufacturers of food products were the most common source of such help, furnishing it to 9 percent of the respondents. However, grocery wholesalers had given menu planning assistance to 4 percent of the respondents and were the second ranking source of such help. Respondents who had received menu planning assistance ranged from 28 percent in one city down to 10 percent in another.

Usefulness of Menu Planning Assistance from Grocery Wholesalers

Of 14 respondents who had received menu planning assistance from grocery wholesalers, 11 reported that it was useful. Most of the aids were forms which outlined a planning system. Seven of the 10 who received this type of assistance found it useful. All 4 who received the aid through discussion meetings and demonstrations said it was useful.

Interest in Menu Planning and Promotional Assistance

Because most respondents had not received menu planning and promotional assistance from grocery wholesalers, they could not express themselves on its usefulness. Between one-third and one-fourth of the respondents said they would be interested in receiving each of three kinds of assistance: Menu planning, developing menu cards and folders, and providing table or wall promotion pieces (table 19).

Table 19.--Interest in receiving certain forms of assistance from grocery wholesalers, by size of establishment

Form of assistance	Size of establishment			350
	Large (154)	Medium (56)	Small (123)	Average 1/
	Percent	Percent	Percent	Percent
Menu planning:				
Interested	23	34	46	33
Not interested	72	64	48	62
Undecided, don't know	5	2	6	5
Total	100	100	100	100
Developing menu cards and folders:				
Interested	22	25	37	28
Not interested	75	71	61	69
Undecided, don't know	3	4	2	3
Total	100	100	100	100
Providing table or wall promotion pieces:				
Interested	20	30	31	26
Not interested	77	66	67	71
Undecided, don't know	3	2	2	3
Unspecified	0	2	0	2/
Total	100	100	100	100

1/ Includes 17 respondents whose size of establishment was undetermined.
2/ Less than 0.5 percent.

Respondents displayed the most interest in menu planning assistance; one-third were interested. Only 26 percent wanted help in providing table and wall promotion pieces. This difference may exist because menu planning is done by most food-service establishments; many do not use table or wall promotion pieces.

The data show little interest among food-service establishments in receiving assistance of these kinds. Experience by grocery wholesalers supplying food stores indicates the wholesaler's customer generally wants what he has been getting, and a little more (1). When the wholesaler offers a sound program of service to fulfill a need of the customer, weak interest often becomes strong acceptance. Therefore, because 26 to 33 percent of the respondents expressed interest in these services, a strong demand for service of this kind would probably develop.

Interest in menu planning and promotional assistance became progressively stronger from larger to small establishments. This, again, no doubt reflects the fact that larger establishments find it less difficult to do these things for themselves, because they have more specialized personnel.

Percentages of customers who expressed interest in these services varied greatly among the cities surveyed (table 20). For menu planning service, this ranged from 52 percent of the respondents in one city to 20 percent in another. The range was even greater for assistance in developing menu cards and folders with 52 percent in one city expressing interest, compared to only 15 percent in another city. This difference in reaction is caused partly by the differences in establishment sizes among the cities. Differences in reaction to such services might vary from city to city because of other factors, such as differences in confidence in the wholesaler's ability to perform such services.

Table 20.--Percent of respondents interested in receiving menu planning and promotional assistance

City	Menu planning	Developing menu cards and folders	Providing table or wall promotional pieces
	Percent	Percent	Percent
A	52	52	38
B	43	33	20
C	42	28	32
D	39	27	32
E	32	28	36
F	26	19	12
G	21	28	30
H	20	15	10
Average	33	28	26

Respondent Suggestions for Wholesaler Assistance

Respondents were asked to volunteer additional areas in which the grocery wholesaler might lend assistance. Assistance had already been considered in the interviews before this question. Repetition of some items in answer to this question emphasizes their importance. Seventeen percent of the respondents mentioned kinds of assistance in the general field of promotional aids (table 21). Additional areas of assistance were mentioned by 4 percent of the respondents, including 3 percent who mention promoting the idea of eating out and 1 percent who made other suggestions. Among these other suggestions were for the wholesaler to provide individual portions of precooked frozen foods to broaden the menu; and to display products, particularly new products, at local trade-association meetings, and to describe or display their use.

Three percent of the respondents made suggestions for management aids. Among these suggestions were: Wholesaler assistance in establishing a system of cost control, and more portion-cost information on frozen foods for cost control.

Table 21 shows that respondents did not want the wholesaler to forget the traditional functions of wholesaling--the functions of supply. Suggestions to improve these functions came from 22 percent of the respondents. Half these

suggestions involved more complete and accurate product information--that is--improve the salesman's performance. About one-fourth of them suggested better price information and prices. This involves both improving the salesman's performance, and improving operating efficiency to allow better prices, because earnings clearly do not permit wholesalers to absorb the differential of lower prices. Another 5 percent of the suggestions involve good-quality products and service: Providing the right inventory selection and effective order handling and delivery.

Table 21.--Areas in which grocery wholesalers could give aid

Suggestions	Size of establishments			
	154 large	56 medium	123 small	350 average 1/
	Percent	Percent	Percent	Percent
Suggestions for promotional aids	17	16	19	17
Provide more information on uses of products	8	7	9	8
Provide point-of-purchase advertising material	3	7	6	5
Promote "eating out"	4	2	3	3
Other	2	0	1	1
Suggestions for management aids	1	4	5	3
Suggestions for performance of supply functions	26	29	12	22
Provide more complete and accurate product information	14	13	5	11
Give better price information and prices	7	5	4	6
Provide quality products and service	5	11	3	5
No suggestions, wholesaler not qualified to provide assistance	52	57	62	57
Don't know or undetermined	8	5	8	7

1/ Includes 17 whose size of establishment is undetermined.

Finally, and perhaps most important, table 21 shows that 57 percent of the respondents reported no suggestions for additional assistance because they believed that the wholesaler was not qualified to provide such assistance. That this may reflect unfavorably upon the wholesaler's qualifications does not constitute the importance of this observation by the respondents. The importance

of this observation by the respondents is that they now have this opinion of grocery wholesaler's qualifications. This means that the wholesaler who attempts to offer services beyond the traditional scope would probably have to overcome doubt among his customers. It means, also, that ineffective performance of a new service would confirm that doubt. The utmost care must be taken to assure that new services are well conceived and well executed. However, the interest expressed by these respondents in certain forms of assistance (table 21) indicates that many would be receptive toward cooperative development with the wholesaler of effective experimental programs.

The experience of grocery wholesalers supplying retail food stores demonstrates that wholesalers are qualified to provide any service to their customers, within the limits imposed by their customers' need for and ability to use the service, and the cost of rendering the service. Obviously, some wholesale firms do not have management competent to assemble and organize the personnel and materials to provide unfamiliar services, but most do.

MANAGEMENT AND OTHER SPECIAL SERVICES

Although institutional wholesalers have usually had no systematic program of extending management aids to food-service establishments (2), some have thought of doing so. Institutional wholesalers have provided certain other special services for their customers, and these are discussed in this section. Foremost among these has been the service of providing quick delivery of small emergency orders.

Services to Control Costs

Savings in costs are as effective as increased sales in contributing to business success. However, the adaptation and application of cost-control methods and techniques to a food-service establishment is often so tedious and time-consuming that the busy operator has little time for them. Also, the skills of the food-service operator usually lie in preparing and serving delicious and attractive foods, not in organizing the abstract and colorless details of a cost-control system. Yet, this too, requires specialized skills--skills that are often lacking in small business firms. And food-service establishments are, by and large, small business firms.

Because institutional grocery wholesalers are dependent upon strong, competitive food-service establishments, they have a vital interest in effective cost control among their customer establishments. These wholesalers may be in an excellent position to contribute substantial assistance in this area, but this will be an unfamiliar relationship for institutional wholesalers and their customers.

Kinds of Cost Control Assistance Received from Grocery Wholesalers

Food-service operators have received little assistance in organizing cost control in their establishments. 12/ Only 17 respondents in this study reported that they had received such help. These respondents received assistance mainly from manufacturers, grocery wholesalers, meat suppliers, and trade associations.

Only five received cost-control assistance from grocery wholesalers. Two of these received charts and tables showing cost analyses of various menu items. A wholesaler set up and maintained the bookkeeping for a cost-control system for one of the respondents. Another respondent reported that the wholesaler demonstrated the use of kitchen equipment for control of portion size as part of his cost-control system. One had received a demonstration of selection and use of ingredients to control costs. Except for one instance, which was evidently experimental, these services were extremely limited.

Attitude Toward an Accounting and Cost-Control Program from Wholesalers

Accounting service to food stores is an important element in operations of wholesale grocers serving that trade. It helps to maintain the operating health and progress of the store, and also sharpens the wholesaler's perspective on problems of retail-store operation.(5) The respondents were asked whether they would favor, be indifferent to, or be opposed to programs under which institutional wholesalers would aid their food-service customers on accounting setups, portion-control procedures, and cost control in general.

Forty-four percent of the respondents said they would favor such a program, 23 percent were indifferent to it, and 33 percent were opposed to it. A higher percentage of the nonchains (47 percent) favored the program than was true of chains (38 percent). The percentage who favored the program increased progressively from large to small establishments--ranging from 39 percent for large to 51 percent for small.

The percentages of respondents who expressed favorable attitudes toward an accounting and cost-control program varied considerably from city to city. This ranged from 61 percent of the respondents in one city to 33 percent in another. Some of this variation can be explained by the higher percentage of nonchains in some cities, and by the higher percentages of small establishments in other cities.

Perhaps more important than whether respondents favored or opposed the program is why they favored or opposed it. The reasons why 155 respondents favored a program of accounting and cost control are:

12/ The hotel and restaurant trade associations and trade presses have given substantial indirect assistance through publicity and conferences.

Reasons	Percent of respondents
Obtain new ideas and simplify cost-control system	68
Would help the business	32
His contacts qualify wholesaler to give this service	3
Favor portion-control help only to help control costs	2
Other	5

The overwhelming reason for favoring the program was that it would be a source of new ideas and a more simplified and effective system of cost control. Some specific reasons in this category given by the respondents indicate their thinking:

> "Cost control is the basis of success in this business....."
> "It would aid in closer determination of costs so we could quickly correct any situation that got out of line."
> "The wholesaler is close enough to the food business to develop new techniques, shortcuts, and easier methods of control."

Others regarded this as a source of free, useful information.

Although they did not feel that the accounting and cost-control assistance would be directly useful to them, 32 percent of the respondents felt it would help put the industry on a sounder operating foundation, by helping the smaller establishments that followed poor accounting and cost-control practices. The following examples illustrate the scope of this reason:

> "It would help the smaller firms who have poor bookkeeping systems."
> "A lot of people don't know how to figure their costs. They shouldn't be in the business, but they are and need help."

Many respondents saw indirect benefits to themselves in such assistance to their smaller competitors, because it would help stabilize the food-service industry.

Three percent of the respondents favored the program because they felt that the wholesaler's many contacts in the business enabled him to give such service effectively. Two percent of the respondents favored the program only on the condition that it be limited to cost control. One respondent wished to limit assistance to cost control, to keep the wholesaler out of the broader aspects of accounting which he regarded as private.

Fifty-six percent of the respondents were indifferent or opposed to an accounting and cost-control program offered by wholesalers. In the following, these two groups are combined because neither was in favor of the program. The overwhelming reason for this attitude was that they preferred their

own systems. These respondents had their own systems, were familiar with them, felt they were effective, and saw nothing to gain in a program from wholesalers. This reason was stated by 73 percent of the respondents who were indifferent or opposed to the accounting and cost control program (table 22). A larger percentage of chains than of nonchains stated they preferred their own system--80 percent--compared with 69 percent. Also, 75 percent of large establishments preferred their own system compared with 71 percent of small ones. This seems to reflect, again, that chain and large organizations have the least difficulty in performing such specialized services for themselves.

Since accounting and cost-control specialists can be hired, 23 percent of the respondents could see no gain from a wholesaler-sponsored program. Furthermore, most of these respondents stated, and some implied, that they felt the wholesaler was not qualified to render such service. (Grocery wholesalers who have successfully offered such programs to food stores have engaged qualified personnel when necessary, and the cost of such programs to the retailer has been substantially less than with other methods.)

Six percent of these respondents said that they did not want the wholesaler interfering in their businesses.

Table 22.--Reasons why 195 respondents were indifferent or opposed to a program of accounting and cost control

Reasons	195 total 1/	Kind of estab.		Size of estab.		
		62 chain	130 non-chain	94 Lge.	31 Med.	61 Small
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Prefer own system	73	80	69	75	74	71
Specialists available; wholesaler unqualified	23	13	28	21	16	28
Don't want wholesaler interfering; he would take advantage	6	2	8	2	10	10
Program would be too costly	3	2	3	1	3	5
Don't think it would be beneficial	2	2	2	2	3	1
Use of grocery items is too limited	1	2	1	2	0	0
Restaurant operations are too varied	1	0	2	0	3	1
Other or unspecified	4	6	3	4	7	3

1/ Includes 3 respondents whose kind and 9 respondents whose size of establishment is undetermined.

Most of these expressed concern that the wholesaler would take advantage of this entry into their businesses.

A few respondents (3 percent) felt that a program of accounting and cost control would be too expensive to be feasible. One percent said that their use of grocery items was too limited for the program to be feasible. If an important benefit of such a program is to sharpen the ability of the wholesaler to think in terms of his customers' needs, limited use of grocery items would make the program too expensive. However, the wholesaler should be able to spread the fixed costs of the program over a sufficiently broad base to permit improved service at lower costs, as has been demonstrated in retail store accounting done by grocery wholesalers.

Services to Improve Work Methods, Equipment, or Layout

Another means by which food-service operators might improve their competitive effectiveness is to reduce their production costs. Labor is an important element in production costs--accounting for between 20 and 35 percent of sales, depending upon the type of establishment. Labor costs may be reduced by increasing the productivity of labor, by improving: the work methods, the equipment, or the layout of equipment and workplaces. This may be a feasible area for the grocery wholesaler to assist his food-service customers. Some respondents have received service of this kind. Of the 13 percent of the respondents who had received it, over half had obtained it from manufacturers. Only 2 percent (6 of the respondents) reported that they had received such services from grocery wholesalers. Three of those operated in a city where one grocery wholesaler handled restaurant equipment, in addition to groceries. The proportion of respondents who have received assistance in improving work methods, equipment, or layout in their operations and the source of assistance is:

Source	Percent of Respondents
Received assistance from:	13
Manufacturers	8
Hotel supply houses	2
Grocery wholesalers	2
Nongrocery wholesalers	1
Brokers	1
Others	1
Did not receive assistance	87
Total	100

Kinds of Assistance Received from Grocery Wholesalers

Three respondents who received these services said that the wholesalers had conveyed useful ideas and suggestions that they had seen other food-service operators use. The wholesalers had set up and trained operators to use dispensing equipment for two respondents. One respondent reported that he had received useful information on sanitation to prevent off-flavors during food preparation.

Respondents' Suggestions of How Wholesalers Could be More Helpful

Only 20 percent of the respondents felt grocery wholesalers could help improve work methods, layout, or equipment, as shown in the following tabulation:

Suggestions		Percent of Respondents
Positive		20
Bring new ideas and research results on methods and equipment	9	
Help in kitchen layout	7	
Provide skilled people for consultation	3	
Help in solving storage and inventory problems	2	
Bring ideas on serving and display of food	1	
Negative		74
They can't help; it is out of their field	48	
No help needed; do it ourselves	24	
Prefer to use other available sources of this help	1	
This is too costly a program for wholesalers	1	
Don't know, undetermined		6
Total		100

The respondents who felt that the wholesaler could give assistance mentioned several kinds of help the wholesaler could give. Almost half of them said the wholesaler could be helpful by bringing information on research results, and new ideas picked up from other establishments. One-third of these respondents suggested the wholesaler could help in kitchen layout to improve efficiency. The suggestion that the wholesaler provide skilled personnel for consultation on work methods, layout, and equipment came from about one-sixth of these respondents. They thought that the wholesaler might have contact with sufficient volume of this work to warrant the attention of such consulting personnel (5). Help in solving problems in storage and inventory management was a suggestion offered by eight of the respondents. Of the 74 percent of the respondents who offered negative suggestions regarding these services, almost two-thirds said that this service is out of the wholesalers' field. They were looking at the problem from quite a different perspective than those who suggested that the wholesaler attract skilled personnel for consultation. Almost one-third of these respondents reported that they needed no help since they did this kind of thing for themselves.

There was considerable variation among cities in the percentage of respondents who gave positive suggestion of ways in which wholesalers could help their customer with problems of layout, work methods, and equipment. The highest percentage was 27 and the lowest 15 percent. Again, this indicates food-service

operators are more favorably disposed toward cooperative effort to strengthen their business in some cities than in others, and is not a regional pattern.

Special Services in Physical Handling of Orders

Institutional wholesalers have traditionally offered a great deal of service in the physical handling of their customers' orders. Respondents were questioned regarding their extent and value.

Extent and Kinds of Service Received

Sixty-one percent of the respondents reported they had received special services in physical handling of the order. The most important service was handling and delivering small fill-in orders to take care of customers' emergency shortages. This service was received by 53 percent of the respondents. The variation among cities ranged from 75 percent receiving this emergency order service in one city, to 20 percent in another city. The wholesaler's deliveryman put the order away in the stockroom for 11 percent of the respondents. He did this for 28 percent of the respondents in one city, but only 5 percent of them in another. The wholesaler ordered special merchandise, not ordinarily stocked, for 8 percent of the respondents. The extent to which this service was rendered ranged from 24 percent of respondents in one city to 2 percent in two other cities.

In some cities, the respondents who received these services generally received only one of them--delivery of small emergency orders. For example, 75 percent of the respondents in one city received emergency fill-in orders, and virtually not other service. But in another city, 52 percent of the respondents received emergency orders, 28 percent had their orders put away in the stockroom, and 24 percent ordered special items through the wholesaler. Many respondents in this city received services, and a substantial proportion of them received more than one service. This shows the diversity in services received by respondents from city to city.

Usefulness of Physical Handling Service

The respondents were asked which of these services was most useful to them. Of the respondents who had received such services, 76 percent favored fill-in orders (table 23). The value of small fill-in orders varied with the size of the respondents' units. Only 4 percent of the large units said that putting the order away in the stockroom was the most valuable service; 13 percent of the small establishments said that it was. Smaller establishments appear to value the laborsaving by the wholesaler doing this job more than larger establishments do. Larger establishments, on the other hand, appear reluctant to have outsiders enter their stockrooms.

Table 23.--Usefulness of special services

Most useful service	215 Respondents 1/	Size of establishment: 102 large	33 medium	69 small
	Percent	Percent	Percent	Percent
Fill-in orders delivered	76	79	79	68
Order special goods	8	7	9	7
Put order away in stockroom	6	4	3	13
Check and rotate stockroom	3	3	3	5
Store stock for us	2	2	0	4
Other and unspecified	5	5	6	3
Total	100	100	100	100

1/ Includes 11 respondents whose size of establishments are undetermined.

Willingness to Pay Extra for Special Services

Grocery wholesalers must incur extra costs to perform the special services of physical handling of orders. But while 61 percent of the respondents had received such services, only 15 percent were willing to pay a slight additional charge for them (table 24).

Table 24.--Willingness of respondents to pay extra for special services

Attitude	350 Respondents 1/	Size of establishments: 210 large and medium	123 small
	Percent	Percent	Percent
Not willing to pay more	82	86	77
Willing to pay slightly more	15	12	20
Undecided, don't know	3	2	3
Total	100	100	100

1/ Includes 17 respondents whose size of establishments is undetermined.

Respondents who were willing to pay extra for special services had one basic reason for doing so: They felt that the services were worthwhile. They expressed this in different ways. That the service was important enough to pay for was the reason given by 57 percent of these respondents (table 25). Twenty-one percent of these respondents said that these services reduced their direct labor costs; they were willing to pay the wholesaler for labor services which they would otherwise have to pay for directly as wages. Among the reasons grouped in the "other" category in table 25 are that these wholesaler services lower costs of carrying inventory, and higher quality of services could be obtained by paying the wholesaler an extra fee for them.

Table 25.--Reasons given by respondents for willingness to pay slightly more for special services

Reasons	53 Respondents 1/	Size of establishment: 26 large and medium	Size of establishment: 25 small
	Percent	Percent	Percent
Important enough to pay for...	57	50	60
Reduces our labor costs.....	21	23	20
Wholesaler deserves to be paid	13	12	16
Other.....	13	15	12

1/ Includes 2 respondents whose size of establishment is undetermined.

The reasons given by respondents who were unwilling to pay extra for special services were more diverse, yet costs played an important role. Thirty-eight percent of the respondents who had their own personnel to do these jobs (table 26), could realize no labor saving by having the wholesaler do them. This reason was expressed somewhat differently by 13 percent of these respondents who said they did not need the service. Another reason, perhaps related, is they do not wish to contribute to higher food costs by paying extra for these services. But 36 percent of these respondents had quite another reason for being unwilling to pay extra for these services: they wanted the services but they felt entitled to them without extra charge.

Table 26.--Reasons given by respondents for unwillingness to pay slightly more for special services

Reasons	288 Respondents 1/	Size of establishment: 180 large and medium	Size of establishment: 94 small
	Percent	Percent	Percent
Have own personnel to do these jobs.....	38	38	40
Entitled to service without extra charge..	36	37	31
Don't need the services.	13	12	14
Don't want outsiders in storeroom	10	12	6
Own employees give better control	8	8	9
Don't want to contribute to higher food costs.....	7	6	12
Other and unspecified ..	3	3	1

1/ Includes 14 respondents whose size of establishment is not determined.

A third set of reasons was expressed in two ways by the respondents. Ten percent of them said they would prefer not to have these services because they do not want outsiders in their stockrooms. Eight percent said they could achieve better control of receiving if their own personnel did the job. Obviously, both these groups were thinking in terms of putting merchandise away in the stockroom.

Most of these services of physical handling of orders are basically different from other services that have been considered in the study. They are different in that they have been offered traditionally by institutional grocery wholesalers. They are also different because the need for them can be virtually eliminated by the food-service operator. An exception is ordering unusual items not ordinarily stocked by the wholesaler. The need for special delivery of emergency orders can be reduced by efficient production planning and inventory control. This survey did not measure how frequently this need arose; other studies indicate that it is a real problem and a costly service for wholesalers (2). The wholesaler might earn more with less money by improving the production planning and inventory management of his customers. To accomplish this, the customer must purchase the major portion of his grocery needs from one wholesaler. The wholesaler's incentive for the program would be quickly destroyed if a competing supplier loaded the customer with slow-moving items after the inventory had been reduced.

It is doubtful that orders can be transported to the stockroom and put away more economically by the wholesaler's deliveryman than by food-service establishment personnel. Deliverymen are usually paid well. If they are occupied in the stockroom, expensive delivery equipment is standing idle--perhaps with the motor running. This inefficiency is compounded if the deliveryman must rotate stock as well as put the order away. Furthermore, the job takes longer if poor inventory management has caused the stockroom to be crowded with slow-moving items.

SALES PROCEDURES BETWEEN GROCERY WHOLESALERS AND FOOD-SERVICE ESTABLISHMENTS

The way contact is established between the grocery wholesaler and the food-service establishments is a major determinant of supplier costs. Direct selling costs account for about one-third of the institutional wholesalers' operating costs.

The wholesale grocery industry serving food stores has achieved substantial reductions in operating costs by changing its methods of obtaining orders from customers. At the same time, they have freed sales personnel from the routine of writing orders to allow more time for creative selling. This has been directed toward selling the complete service of the wholesaler, rather than single items, and toward improving the effectiveness of the customer to strengthen his competitive position, because the wholesaler can sell only when the retailer sells. The wholesaler has become the procurement agent for the food store, buying what will sell at retail.

Reduction of selling costs alone, however, cannot provide sufficient reduction of operating costs to noticeably affect merchandise costs to the customer. Costs must be reduced elsewhere as well. Wholesalers serving food stores have found that operating costs could be substantially reduced by increasing the customers' average order size. By this means, the heavy fixed costs, per order, of selling, processing the order in the office and in the warehouse, and delivery, are spread over fewer orders and more volume. This lowers the wholesalers' operating costs per unit of sales.

The increased average order size has not been achieved by forcing the food store to hold a larger inventory. To do so would be to exchange high wholesaling costs for high retailing costs, which would do nothing to improve the retailer's competitive effectiveness. It has been achieved by encouraging the retailer to concentrate his business with one wholesaler. The wholesaler has forced himself to merit this concentration by providing the necessary selection of merchandise for his customers, providing the right selection of services for them, and doing these at costs which allow his customers to be competitive. This has been a tremendous task.

The increase in average order size, and the resulting lower merchandise costs have not come free to the food store either. The retailer has planned his buying more carefully. He has also deprived himself of the pleasure of frequent shrewd trading, and playing one salesman against another to obtain additional discounts. He has had to successfully resist the temptation to buy 2 years' supply of dog food in order to get 10 cents off on the case. But the retailer has been given incentive to compensate for these extra efforts. The wholesaler's pricing structure has been designed to reward the customer who adjusts his buying practices to permit lower operating costs at the wholesale level. His reward is in the form of lower overall merchandise costs.

These procedures have been highly successful in the relationships between grocery wholesalers and food stores. Are they adaptable to the different environment of the institutional wholesaler-food service business? This study inquired into the extent to which such procedures are being used and the feasibility of using them.

Placing Orders With Wholesalers

Methods of Contact

Two methods of placing orders with institutional grocery wholesalers are widely used by the respondents in this study. Methods used to place orders with grocery wholesalers are:

Method of Placing Order	Percent of Respondents
Sole and primary:	
Order telephoned in	43
Salesman writes order as it is given orally	42
Preprinted form used and given to salesman	6
Salesman writes order from prepared list given him	3
Preprinted order form used and mailed in	2
Salesman makes up the order	2
Other	2
Total	100
Secondary:	
Order telephoned in	53
Salesman writes order as it is given orally	39
Salesman writes order from list given him	9
Preprinted form used and mailed in	6
Preprinted form used and given to salesman	5
Salesman calls for the order	2
Other	2
Total	116

Some of the respondents use more than one method of placing orders.

In the following tabulation, all methods used by respondents to place orders with grocery wholesalers are shown:

Method	Percent of respondents
Call order in over telephone	74
Salesman writes order as it is given orally	66
Preprinted order form is mailed in or given to salesman	15
Salesman writes order from a list given to him	9

Effect of Kind and Size of Establishment Upon Method Used

Nonchain establishments more frequently had the salesman write up the order as it was given to him orally than chains (table 27). Chains, on the other hand, more often telephoned the order to the wholesaler.

Among both nonchains and chains, medium and small establishments used the method of having the salesman write up the order more than did large establishments. Because the respondents are all large establishments in comparison to the general size of food-service establishments over the United States, the data in table 27 suggest the method of having the salesman write up the order as it is given to him orally is by far the most common. This agrees with previous study (2). Larger establishments of both kinds made greater use of telephoning the order to the wholesaler.

Table 27.--Comparison of importance of major methods used to place grocery orders, by kinds and sizes of establishments

Method	Nonchain			Chain		
	245 1/ Total	81 Large	153 Medium & small	101 2/ Total	72 Large	24 Medium & small
Sole or primary:	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Salesman writes order given orally	48	32	58	29	22	46
Call order in over telephone	39	52	31	49	52	42
Salesman writes order from list	4	4	4	3	2	8
Preprinted form given salesman	5	8	3	9	12	0
Preprinted form mailed in	1	0	1	5	7	0
Other	3	4	3	5	5	4
Total	100	100	100	100	100	100
Sole, primary or secondary						
Salesman writes order given orally	72	61	80	53	47	71
Call order in over telephone	73	80	69	77	76	75
Salesman writes order from list	9	9	10	13	3	12
Preprinted order form given salesman or mailed in	9	15	7	17	28	12

1/ Includes 11 respondents whose size establishment was not determined.
2/ Includes 5 respondents whose size establishment was not determined.

Although the preprinted order form was not used extensively by any respondents, chains used it more than nonchains; however, large establishments were the only chain units that used it as the sole or primary method. Usually, the order was entered on the preprinted form and given to the salesman. A few respondents mailed the order in on the preprinted form.

Although telephoning the order to the wholesaler is not often used as the sole or primary method of placing orders by medium and small establishments, most of them have had experience with the method. It was used as the sole, primary, or secondary method by 69 percent of medium and small nonchains and 75 percent of medium and small chain establishments. The preprinted order form also appears to be somewhat more widely used, when secondary methods of placing orders are considered. Seventeen percent of the chain establishments have had

some experience with it, but only 9 percent of the nonchains have used it. Again, more large establishments have had experience with it than medium and small establishments.

Respondents' Suggestions to Improve Order Placing Methods

Having the salesman write the order as it is given to him orally can be a costly method of placing orders. If the salesman does nothing but record the order, remind the customer of certain items, and quote prices, he is functioning as a clerk. Two people are performing a job which one person, the customer, might perform more effectively alone. If the salesman does creative selling in addition to these clerical functions, he and the customer are deprived of creative selling time by the time taken to write the order. If the salesman performs nothing but the clerical functions, he is an expensive clerk, because he must travel to the customer's establishment and wait to see the customer before he can begin work.

Telephoning the order to the wholesaler is an inexpensive method of placing the order. However, it has certain limitations: lack of visual contact impedes creative selling. There may be more pressure to end contact than would be true of personal contact, which limits the opportunity to remind the buyer of items. The flow of calls initiated by customers would probably be spasmodic, so wholesaler personnel handling calls would be very busy at some times and idle at others.

Only four respondents in this study indicated that the salesman initiated the phone call to take the order. Unless the flow of calls is even it would be wasteful use of salesman's time to man the telephone order desk. The competence of other personnel to take these orders as a part-time responsibility is questionable. A danger to the wholesaler in more extensive use of telephone selling is that the customer may feel that the wholesaler does not want his business. Previous studies indicate that telephone selling is most commonly used as a supplement to personal sales calls (2).

The 350 respondents in the study were asked to suggest ways to improve the manner in which their orders were placed with the grocery wholesaler and these suggestions are:

Suggestions	Percent of respondents
Preprinted order form sounds good	9
Have better telephone ordering service	7
Have more informative salesmen	4
Have more frequent sales calls	1
Have more accurate order filling procedures	1
Have pamphlet describing items carried	1
Assure that orders will be filled and inform of substitutions	1
Give multiple copies of order blanks	1
Other	2
No suggestions	73
Total	100

Most respondents (73 percent) offered no suggestions. They liked the way wholesalers did it, or had not given the matter much thought. This is natural because the cost of contact is borne directly by the wholesaler, and would be expected to be in his sphere of management. However, 89 respondents did offer suggestions.

Thirty-one of the respondents (9 percent) said that the preprinted order form sounded like a good suggestion. Interest in this varied from place to place, ranging from 17 percent of the respondents in one city to 3 percent in another. To provide better telephone ordering service was the second most frequently made suggestion. It was suggested by 26 respondents, ranging from 20 percent in one city to 2 percent in another city. The third ranking suggestion was to provide better informed or informative salesmen. This was mentioned by 13 of the respondents, ranging from 16 percent in one city to none in three other cities. Three respondents suggested that the wholesaler provide an indexed pamphlet listing all the new and/or existing products he carries, with a short description of each. This appears to be a variation of the preprinted order form used by wholesalers serving food stores. However, the respondents who suggested this appeared to visualize more description of new items than usually appears in the preprinted order form. The frequency with which these suggestions were made was about the same among the different kinds, sizes, and types (hotel-restaurant, table-service restaurant, cafeteria, and employee-food service) of food-service establishments, except that the employee-food-service operators made few suggestions of any kind.

Evaluation of the Preprinted Order Form

Food-service establishments generally have not had experience with preprinted order forms of the kinds used by grocery wholesalers supplying food stores. While variations of it have been used as reminder catalogs by a few institutional wholesalers, it has been used very little (2). Accordingly, the respondents were asked to evaluate the idea of the preprinted order form which lists a description and the price of all items carried by the grocery wholesaler. It was explained that the order form is completed by the customer and mailed to the wholesaler.

Among all respondents, only 27 percent favored the preprinted order form, leaving 60 percent who opposed it, and 13 percent who were indifferent or did not have an opinion (table 28). Only 15 percent had previous experience with a similar form; many of these had used abbreviated versions of their own preprinted order form.

The small establishments were more favorably impressed with preprinted order forms than the larger ones. Little difference appeared among chain compared with nonchain establishments.

Among the various cities, considerable difference appeared in the percentage of respondents who favored the preprinted order form. This ranged from 41 percent in one city to 18 percent in another. Preprinted order forms tend to burden buyers if they must use several of them. Also, the preprinted form cannot be used for price bargaining. Accordingly, the data were analyzed to see

if a relationship existed between the attitude of the respondents toward the order forms and the tendency to concentrate with the main grocery wholesaler. Of the respondents who bought 0 to 30 percent of their grocery needs from the main wholesaler, only 16 percent favored the form whereas 33 percent, who bought over 70 percent of their needs from the main wholesaler, favored the form (fig. 2).

Table 28.--Attitude of 350 respondents toward the preprinted order form

Attitude	350 1/	Kind of establishment		Size of establishment		
	Average	101 Chain	245 Nonchain	154 Large	56 Medium	123 Small
	Percent	Percent	Percent	Percent	Percent	Percent
Unfavorable..	60	63	59	65	66	51
Favorable....	27	26	27	23	27	29
Indifferent don't know..	13	11	14	12	7	20
Total...	100	100	100	100	100	100

1/ Includes 4 respondents whose kind and 17 whose size of establishment was not determined.

Using the preprinted order form to help reduce marketing costs depends partly upon its acceptability to customers. Because the form can be changed, customers' preferences can be incorporated into the form used by the wholesaler.

The 93 respondents who favored the order form had two principal reasons for doing so. One was that it could reduce costs. The other was that it could give them useful information which they do not receive, or in a better form than they now receive it. These reasons were expressed in a variety of ways by the respondents, as shown in the following tabulation:

Reasons	Percent of respondents
Would save time and facilitate ordering	47
Gives idea of costs and can plan ahead	31
Good reminder to reorder	29
Gives idea of new and other items carried	14
Other	6

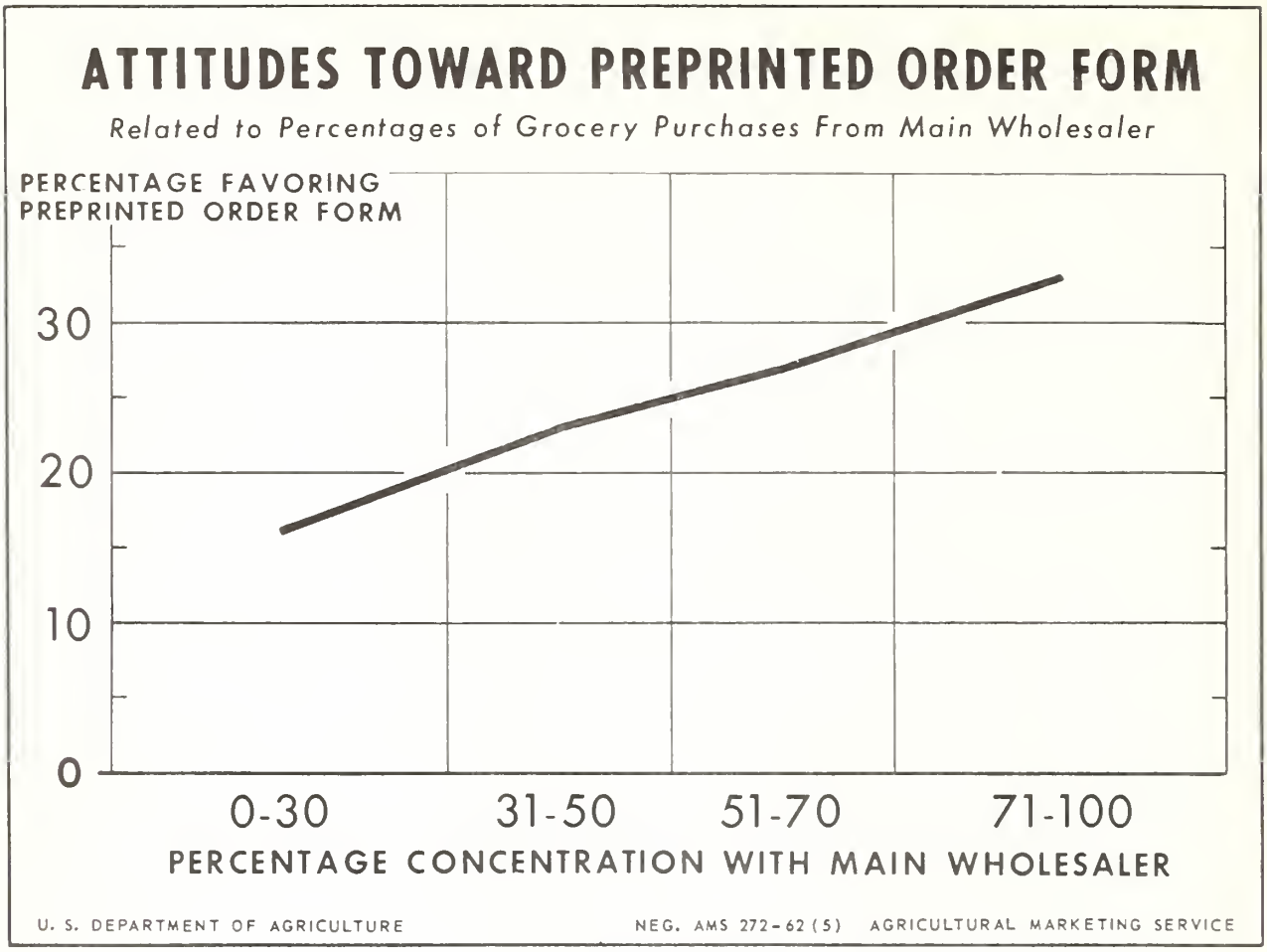

Figure 2

That the preprinted order form would save time and facilitate ordering was the reason given by 47 percent of the respondents who favored the idea. Some of them emphasized that it would save time for the wholesaler's salesman; others emphasized the time saving to the food-service operator. By saving time, the form would reduce operating costs for the food-service operator or reduce his merchandise costs, if the wholesaler passes his savings in operating costs along in lower prices. Ordering would be easier because the buyer simply writes the number of units of each item he wants to buy. He does this at his own convenience, not at the convenience of the salesman's schedule. The readymade checklist reminds him of items as rapidly as he can read--more rapidly than he and the salesman can review the list in conversation.

Thirty-one percent said it would give ideas of costs that would be useful in menu and production planning. Twenty-nine percent of these respondents said that the preprinted order form serves as a reminder to reorder. The value of showing the complete stock of new as well as other items carried by the wholesaler was mentioned by 14 percent of these respondents. Another reason was

that the form would facilitate combining stock-checking with ordering (4). They also said there would be less chance of error in ordering.

The reasons given by 209 respondents for their unfavorable attitude toward the idea of the preprinted order form are:

Reasons	Percent of Respondents
Need personal contact with the salesman	31
List would be too bulky	20
Present system is better	13
Proposed system would require more work	12
Price information would not be up to date	8
Prefer telephone to mailing the order in	7
Place orders too often and need quicker service	6
Descriptive information would not be up to date or adequate	4
Not suitable for buying on bid basis	4
Could lead to inefficient ordering methods	3
Would cost too much for printing	1
Other	2
Unspecified	1

The 31 percent, who said they needed more personal contact with the salesmen than afforded by the preprinted order form, demonstrates a widespread misconception of the use of the form. The form is not a substitute for creative selling; it is a substitute for order-taking. This allows the salesman additional time with the customer for creative selling and helping the customer. Generally, wholesalers supplying food stores who use the preprinted order form call their salesmen "field representatives," "sales supervisors," or "sales servicemen," but they still sell creatively (6). Changes in procedure and title of the salesman have usually been accompanied by a reevaluation of the selling problem and reorganization of the sales approach. This has resulted in strengthening the sales function, rather than eliminating it.

Twenty percent of the respondents who did not favor the preprinted order form reasoned that it was too bulky. This would be a justifiable objection for the limited-menu restaurant which has occasion to use few grocery items, but it would not be reasonable for the wholesaler to plan his services for this type of customer.

Order books used by wholesalers supplying food stores are generally not bulky. For example, one wholesaler, stocking 2,000 items, uses a 6½- by 8-inch booklet of 56 pages. This provides adequate space for headlining and advertising cuts, that make it easier for the user to find specific items. This booklet is revised every 2 weeks to keep prices current. Total costs of labor, material, and printing are 50 cents a copy on this booklet. This cost is equivalent to 10 minutes of a salesman's time, based on a salary of $3 per hour for salesmen.

Thirteen percent of the respondents said that their present ordering system is better. Seventeen of these ordered by telephone, and some said mailing the order would be too slow. Fourteen others preferred telephoning to mailing the order in. This suggests the advisability of combining the preprinted order form with a telephone ordering procedure--the typical method used for produce

ordering by food chains and one-stop grocery wholesalers supplying food stores. Four respondents had their own preprinted order forms, designed to fit their particular systems. Two were limited-menu operators who used small quantities of grocery items.

Twelve percent of the respondents who did not favor the preprinted order form said it would require more work. The labor-saving resulting from use of the order book is its primary advantage and is most effective in reduction of costs when buying is carefully planned by the buyer. This helps eliminate dead inventory and to speed inventory turnover. Carefully planned buying usually takes more time, but the cost of this additional time is usually several times offset by reduced inventory costs.

Twelve percent objected to the order form on grounds that the prices and descriptive information would not be up to date or adequate. Weekly or bi-weekly revision of the order book effectively keeps prices current. Some wholesalers supplying food stores, who revise their order books every 4 to 6 weeks, mail short weekly price-change flyers to their customers. The descriptive information in the order book is not designed to substitute for detailed description, which would be left to the salesman.

Six percent objected to the order form because they order too often and need quicker service. Although order books are seldom revised oftener than weekly, customers who send an order 5 days a week merely use five of them, or use order blanks for writing the code number of each item and the number of units desired. Thus, order books place no limit on frequency of ordering, and because use of the order book can be combined with telephone ordering, it places no restriction on the speed of service.

Three percent said the preprinted order form could lead to inefficient ordering methods. The order book is not used to greatest advantage when suppliers are selected on the basis of item prices.

Such buying scatters business to a number of suppliers. The order book is most useful when suppliers are selected on the basis of overall price, quality, and service, and purchases are concentrated with one wholesaler. Such concentration does not mean that the overall price, quality, and service are not subjected to constant review by the careful buyer. Because buying is made more routine by the use of the order book, a greater tendency to become careless may result from its use.

Although some objections to the preprinted order form have merit, the objections raised most frequently can be easily corrected by adaptation of the order book to the food-service operators' needs. The reasons given by these respondents appear to offer little real resistance to order forms, and are of value in designing an order book and the system in which it would be used.

Size of Orders Placed by Respondents

Order size is crucial in determining the wholesalers' operating costs. Each respondent was asked to give the amount of his usual order with his main grocery wholesaler.

Distribution of Order Sizes

The usual order size placed with the main grocery wholesaler reported by these respondents ranged from $25 to $2,500. The distribution of respondents reporting various sizes of orders is shown in table 29.

Table 29.--Value of usual single orders placed by respondents with main grocery wholesalers

Value of order	Average	Size of establishments		
		Large	Medium	Small
Dollars	Percent	Percent	Percent	Percent
0 - 34	2	0	2	5
35 - 49	3	1	4	4
50 - 74	6	3	5	9
75 - 99	5	2	5	8
100 - 149	14	6	20	21
150 - 199	11	7	10	17
200 - 299	19	19	21	19
300 - 499	16	19	20	11
500 - 749	9	16	7	2
750 - 999	2	3	2	2
1,000 and over	9	18	2	1
Undetermined	4	6	2	1
Total	100	100	100	100

The median average order size indicated for these respondents is $237. However, this is much larger than the average order placed with institutional grocery wholesalers, because the size of the usual order placed with the main wholesaler was requested. These conditions increase the size of orders that were reported.

When these figures are compared with the value of orders shipped by institutional wholesalers, the large size of the respondents in this study compared with the national food-service industry is shown. The data in the following tabulation show the characteristic small size of orders. The tabulation shows the value of individual orders shipped by four institutional wholesale grocers for 1 week, by size of order:

Dollar value of order	Percent of orders shipped
Less than 50	55
50 - 99	23
100 - 149	10
150 - 299	9
300 and over	3
Total	100

Relationship to Size of Establishment

Larger establishments would naturally be expected to place larger orders (table 29). Figure 3 shows that most small respondent establishments bought from their main grocery wholesalers in small order sizes. The usual order size for 24 percent of the large establishments, was more than $1,000. The median average order sizes for the three categories were $390 for the large establishments, $216 for the medium establishments, and $156 for the small establishments.

Each category includes nonchain (some with 2 or 3 units) and chain units. In some cases, each unit of the multiunit nonchains does its own buying; in other cases, the buying is consolidated for the firm. This is also true of the chains. A clearer picture of the relationship between the value of the usual order and the size of the establishment, measured in annual sales volume, is obtained by examining this relationship for the single-unit firms (fig. 4). Each dot in the figure represents a reported usual order size for one of the five categories of establishments. The median average order size for each category is:

Annual sales	Median order size
$50,000 - $99,999	$100
100,000 - 299,999	125
300,000 - 499,999	138
500,000 - 999,999	250
1,000,000 and over	450

These figures show again that the order size increases as the size of firm increases.

Figure 4 shows a great deal of overlapping of order sizes among the different sizes of firms. The wholesaler cannot depend upon the large food-service operator to buy large orders, because many large firms place fairly small orders. This is partly because food-service operators spread their business among several wholesalers, and do not always plan their purchases carefully. They feel little compulsion to plan for a number of reasons. First, fixed costs of placing an order with a wholesaler are negligible. Also, fixed costs of receiving an order are often hidden in the overall operating costs of the kitchen and stockroom, or shifted to the wholesaler when his deliveryman puts the order away in the stockroom. Finally, food-service operators are generally not aware of the heavy impact of the fixed costs per order upon the operating costs of the wholesaler.

Minimum Order Requirements of Wholesalers

One approach that wholesalers have made toward reducing the problem of small orders is to establish minimum order sizes. In this study 11 percent of the respondents reported their main grocery wholesalers maintained minimum-order requirements. Half of these respondents were in one city; this concentration (47 of the respondents in that city) left only 6 percent of the respondents in the remaining cities to report such requirements.

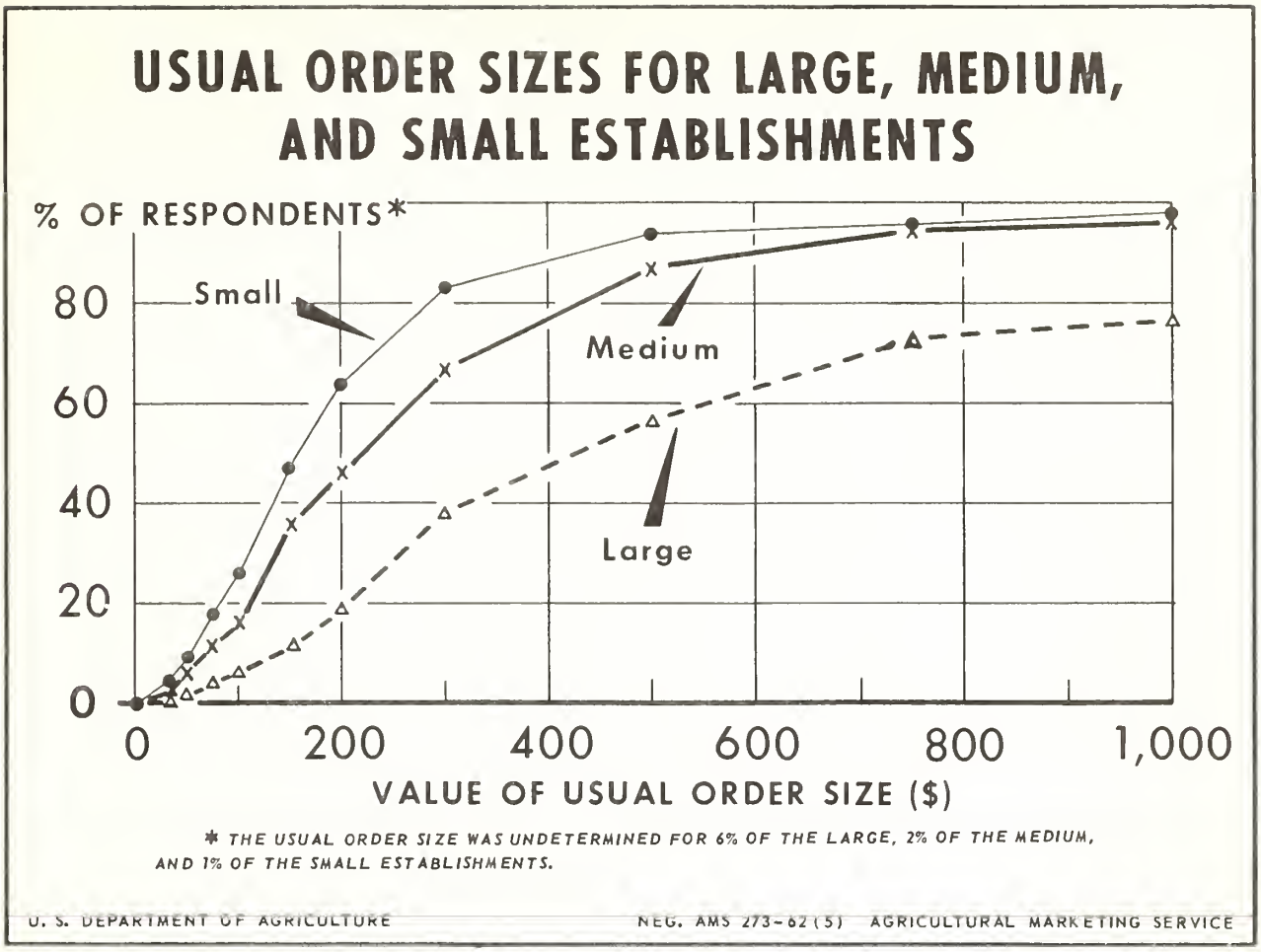

Figure 3

Some wholesalers have approached the minimum-order problem by setting a minimum number of cases of merchandise or a minimum dollar value per order. Customers with little knowledge of the nature of wholesaler costs, have often interpreted such rules as arbitrary and unreasonable devices to force additional sales upon them. The resulting resentment has often made the wholesaler reluctant to enforce such rules.

Another approach to encouraging large orders is to stimulate salesmen to greater effort by a sales compensation plan. One wholesaler paid no sales commission on orders of less than $40. This plan may cause the salesman to load the customer with necessary stock in order to reach the $40 goal. Also, it does not place the incentive upon the one who plans the purchases: the buyer receives no penalty for buying in a way that increases the wholesaler's costs, and no reward for buying in a way that minimizes the wholesaler's costs.

A limitation of both plans is that wholesaler costs per order decrease continuously as the size of the order increases. To be most effective, an

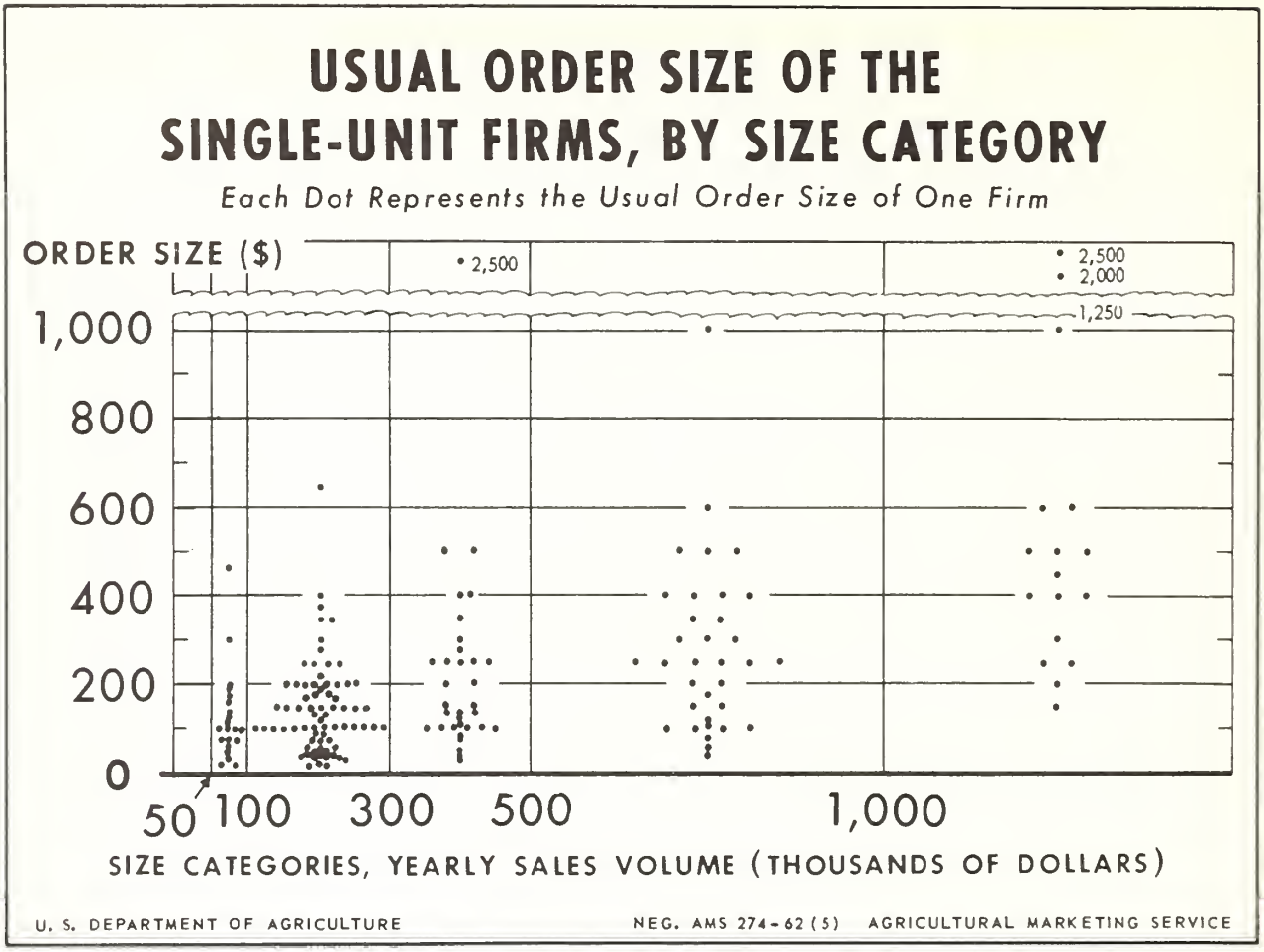

Figure 4

incentive plan to reduce small orders should increase penalties for buying in small orders, as the orders become smaller, and increase rewards for buying in large orders, as the orders become larger, up to the limit beyond which larger orders have no further effect upon reducing wholesaler costs. The significance of this becomes obvious when the relationship between wholesaler costs and order size is examined.

Relationship Between Order Size and Wholesaler Costs

Operating costs of institutional wholesale grocery firms vary considerably from one firm to another, but costs in one firm will reflect the general pattern of costs in others. The relationship between order size and wholesaler operating costs also vary considerably from firm to firm, depending upon the type of warehouse, equipment used in order selection, delivery equipment, management capabilities and preferences, and other factors.

A case study in one institutional grocery warehouse determined the relationship between selection time and order size by number of cases. Orders were selected on 4-wheel selector trucks in this warehouse. If an order was fairly large, it was selected separately and placed on one truck in one pass through the selection line. Smaller orders were selected two or three at a time and placed on one truck in one pass through the selection line. The study showed that the best efficiency was achieved when orders up to 7 cases were selected 3 at a time, orders of 8 to 13 cases were selected 2 at a time, and orders of 14 or more cases were selected singly. Figure 5 shows the pattern of selection time per case, as the order size ranged from 2 to 30 pieces. For smaller orders, the selection time per piece falls rapidly as the order size increases. Almost twice as much time per piece is required to select an order of 2 pieces as to select an order of 14 pieces. For larger orders, the selection time per piece falls very slowly as the order size increases.

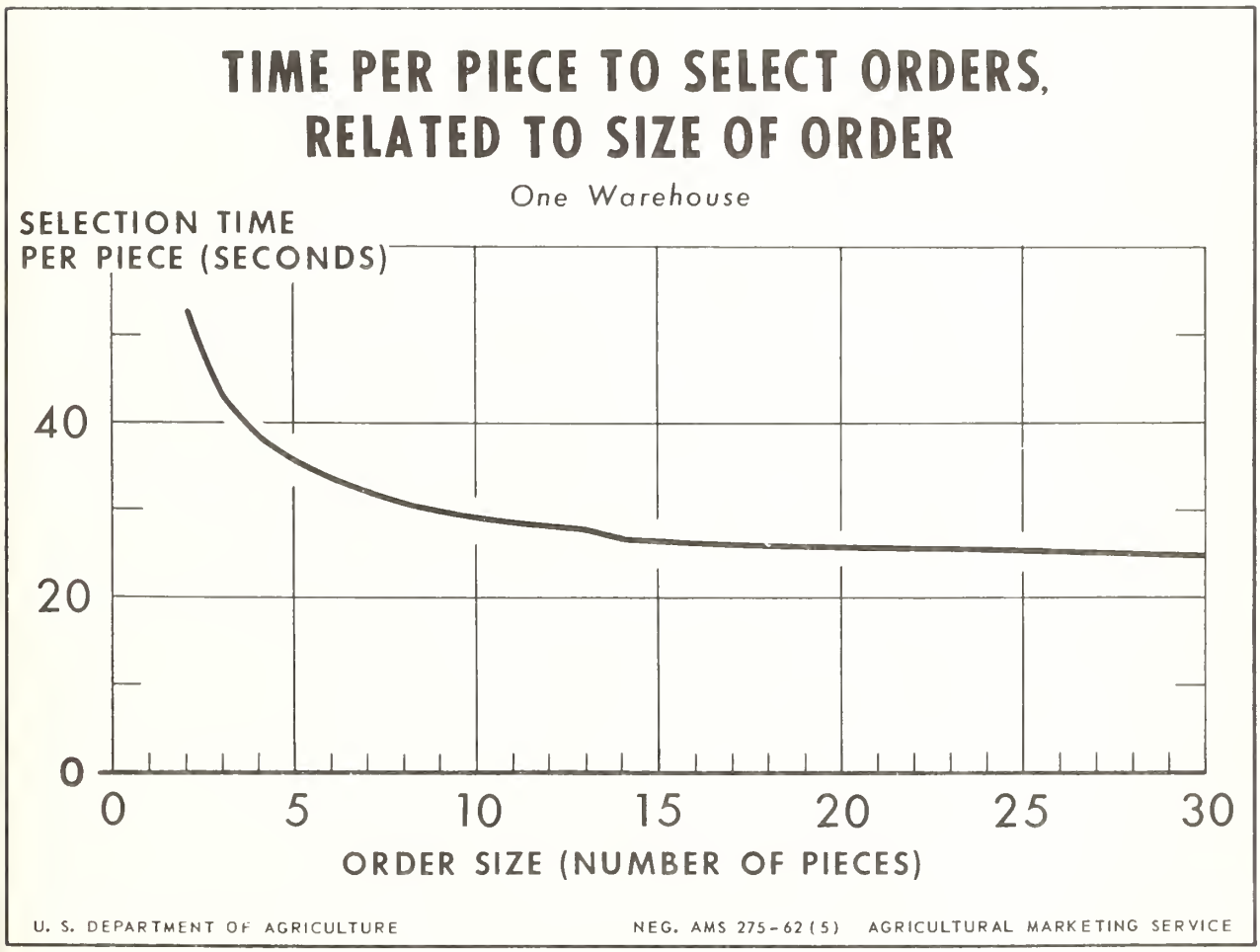

Figure 5

Total costs for office, warehouse, delivery, and sales of another grocery wholesale firm were studied, to establish the relationship between order size and the cost of servicing the order. The wholesale firm in this case used

wheel conveyor equipment for order selection, bobtail (short-wheelbased) trucks for delivery, and manual methods of order processing in the office. The pattern of costs in relation to order size experienced by this firm is shown in figure 6. This wholesaler's costs decline rapidly until an order size of about $150 is reached. After this, the rate of decline is substantially reduced, but wholesaler costs per unit of sales continue to fall as the size of order increases. This pattern indicates the substantial effect that order size has on wholesaler's costs.

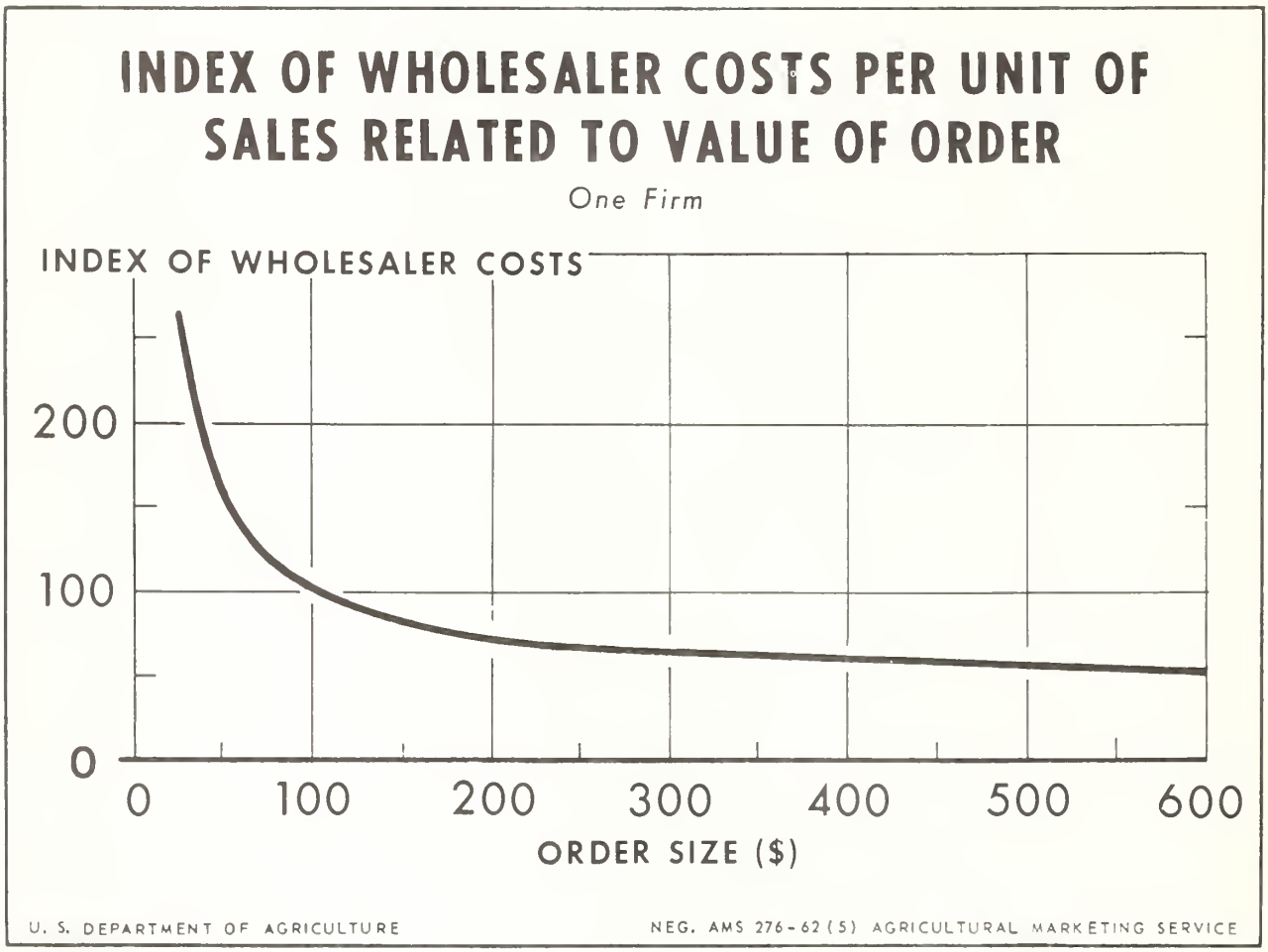

Figure 6

Pricing Practices

Low prices are an effective incentive for buyers. Grocery wholesalers supplying food stores have used pricing as a tool to encourage their customers to buy in ways that will minimize wholesaler costs. Their pricing plans have been widely referred to as "cost-plus" plans. A most important common element of these plans has been quantity discount, which has encouraged larger sizes. Pricing plans of this kind have not been widely used in institutional grocery wholesaling.

Use of Quantity Discounts Reported by Respondents

The kind of quantity discount that encourages large order sizes is one based upon the size of the complete order. This is unlike quantity discounts, offered by some grocery manufacturers, which are based on the quantity purchased of a particular commodity. Few food-service operators can justify buying enough of any particular commodity to earn a discount. Accordingly, the respondents in this study were asked if their main grocery wholesalers offered a quantity discount based on the size of the complete order.

The following tabulation shows the extent to which discounts are offered 350 customers and their satisfaction with them:

Whether offered satisfaction		Percent of respondents
Discounts not offered		73
Discount offered		26
Satisfied with terms	24	
Not satisfied with terms	1	
Unspecified	1	
Undetermined		1
Total		100

Of the 26 percent who received quantity discounts, most were satisfied with the terms. The terms of these discounts show that most of them were based on a single commodity or brand. Examples of these terms are: $5\frac{1}{2}$ percent on 25 cases of a certain brand; 25 cents a case on catsup in 50-case lots; buy 10 cases and get 1 case free; and discount for 5-case lots of one item.

In other cases the terms specified one-step discounts on the whole order. An example of this kind of discount is 2 percent off on orders of 10 cases or more. The effect of this kind of discount is to encourage the buyer to purchase 10 cases and no more.

Of the 92 respondents who reported that their main grocery wholesalers offered quantity discounts, 33 specified terms that were discounts based on the size of the entire order. Nineteen of these respondents were located in a city where several institutional wholesalers offered similar terms. One set of terms was:

Purchase volume	Discount (percent)
$200 to $300	2
$300 to $500	4
$500 to $800	5
$800	6

The discount is received as a rebate check at the end of each 4-week period. The risky element to the wholesaler in this plan is its cumulative nature; it applies to the total purchases for the 4-week period regardless of the number of orders purchased. Where cost savings to the wholesaler may absorb the discount if the purchases are made in four orders, they may not absorb the discount if the total volume is purchased in six orders.

Because most quantity discounts reported by the 92 respondents were based upon individual commodities or brands instead of the whole order, 63 of them spaced their orders to take advantage of the discounts. Of the 29 respondents who did not space their orders to take advantage of the discounts, 4 were offered true quantity discounts on the complete order. One of these four establishments was a unit of a large chain, which maintained its own supply facilities and obtained fill-in orders from wholesalers. The other three were smaller operators, who stated that to take advantage of the discounts would require them to maintain excessive inventories. The remaining 25 respondents who reported that their wholesalers offered discounts, but that they did not take advantage of them, gave a number of reasons for not doing so:

Reasons	Number of respondents
Would require holding excessive inventory	11
Space for storage of inventory is not available	9
Prefer to order according to need	4
Can obtain good prices without buying in quantity	3
Operate on limited working capital	3
Want to buy some from other wholesalers to compare prices	1
Total reasons	31

Problems of excess inventory and limited storage space loom large among these reasons. But in evaluating them, bear in mind that the discounts offered to these operators generally required multiple-case purchases of single commodities. The usage rate would justify multiple-case purchases of very few commodities in most food-service establishments.

Attitude of Respondents Toward Quantity Discounts Based on Individual Orders

Because most respondents have had no contact with quantity discounts based on individual orders, they were asked to express their reactions to the idea of such discounts. Half the respondents favored the idea (table 30). Only 35 percent did not favor such discounts. The mixture of attitudes was largely the same for all sizes of respondent units, except more of the medium establishment answers were "indifferent, don't know." Many wanted to see the details of a proposed discount before they expressed an attitude.

Considerable variation in the attitudes of respondents to the quantity discount on the whole order appeared from city to city. The percentage favoring discounts ranged from 62 percent in one city to 36 percent in another. This variation may be due to a number of factors, but none are evident in the data. However, in the second city, over half of the respondents were offered real quantity discounts on the whole order. Of the 19 respondents in that city who were offered quantity discounts on the total cumulative 4-week purchases, 9 of them favored the idea of a quantity discount based on the size of the individual order. Two of the 19 reported an "indifferent, don't know" attitude; one said that his attitude would depend upon the size of the discount, and the other gave no reason. Both spaced their orders to take advantage of the discounts now offered.

Table 30.--Attitudes of 350 respondents toward quantity discounts based upon individual orders

Attitude	Average 1/	Size of establishment: Large	Medium	Small
	Percent	Percent	Percent	Percent
Favorable	51	55	46	50
Unfavorable	35	34	29	37
Indifferent, don't know	14	11	25	12
Undetermined	0	0	0	1
Total	100	100	100	100

1/ Includes 17 respondents whose size establishment was not determined.

Eight of the 19 opposed the quantity discount on the size of the individual order. Four of these objected because it would require holding excess inventory, and one said it would tie up too much capital. All five of these respondents were currently spacing their orders to take advantage of the cumulative 4-week discount offered to them. Three of them indicated that they had in mind a quantity discount on individual items or brands. A comment was: "It might be all right on tomatoes, or something I use a lot of, but not on most things like pears or asparagus." The remaining three of these eight respondents said the quantity discount based on the individual order would be unfair to the "little man." Two were speaking for the little man since their usual orders were $200; since the third said his usual order was $30, he was speaking for himself.

This analysis indicates some respondents who had experience with the cumulative 4-week discount on purchases, who understood the idea of the quantity discount based on the size of the individual order, were opposed to it. Perhaps 4 or 5 of these 19 respondents were truly opposed to the idea proposed.

Reasons Given for Attitudes Toward Quantity Discounts on Individual Orders

The reasons respondents favored or opposed quantity discounts on individual orders are useful for appraising the feasibility of introducing such a procedure. They also offer a partial basis for designing discount plans to most effectively fill the need. Therefore, these respondents were asked why they felt as they did regarding the quantity discounts. The reasons given by 179 respondents who favored quantity discounts on individual orders are:

Reasons	Percent of respondents
Reduces food costs	68
Helps reduce wholesaler costs	27
Stimulated improved buying practices	4
Is good if you have storage space	3
Is good if does not cause excess inventory	2
Is good for large operators	1
Other	2
Unspecified	1

The 27 percent of them who said that it would help reduce wholesaler costs doubtless felt the wholesaler's savings would ultimately return to them in lower food costs. Four percent of them said that quantity discounts based on individual orders would stimulate improved buying practices. This point is evaluated below in connection with the statements of other respondents that this encourages bad buying practices. The remaining reasons were provisional. These are also considered later except for one, in the "other" category, to the effect that the respondent would favor the discount provided the buyer is not penalized by higher prices on small orders. It is doubtful that this provision could be achieved in most instances.

Under traditional pricing practices, the high cost of servicing small orders is offset by the profit realized on large orders. If the wholesaler offers a quantity discount on large orders, the small orders must be priced to pay their own way. The effect of competition upon the margin of profit earned by institutional wholesalers allows no other alternative. The real question is whether food-service operators will continue so many small orders if they are offered incentive to buy otherwise.

The reasons given by 122 respondents who opposed quantity discounts on individual orders are:

Reasons	Percent of respondents
Requires excessive inventory	52
Prefer discounts regardless of order size	16
Encourages bad buying practices	13
Prefer standard prices	12
Does not fit company buying policy	4
Not suitable for small operator or small orders	3
Other	5
Unspecified	1

These reasons are more diverse than those favoring the procedure. Yet 52 percent of the respondents gave one reason: that it would require the food-service establishment to hold an excessively large inventory of grocery products. Some of these respondents felt the required inventory would be excessive in terms of working capital invested. Others were concerned with limited storage space for inventory.

Food-service operators have two sets of costs to balance in managing their inventory: procurement costs and inventory carrying costs. Procurement costs

are communication and clerical costs of buying, costs of the physical movement of goods, and costs of merchandise. Generally, the less frequently buying is done, and the larger the individual order, the lower the per unit procurement cost will be. Inventory carrying costs are capital invested in inventory, storage space and equipment costs, and costs of spoilage and damage during storage. Generally, the more frequently buying is done, the smaller the individual order; the smaller the average inventory, the lower the inventory carrying costs will be. If the food-service operator buys too often and in too small orders, his inventory carrying costs will be low, but his procurement costs will be high. If he buys too seldom and in too large orders, his procurement costs will be low but inventory carrying costs will be high. In deciding how frequently to buy and in what order size (for a given usage rate), the food-service operator must find the point at which the combined total of procurement costs and inventory carrying cost is lowest, to achieve the best efficiency in buying.

The traditional method of pricing in the institutional wholesale grocery field has been to add a markup to the costs of merchandise; this single selling price is then quoted to all buyers. (Systematic quantity discounts are a rare exception (2).) The selling price includes all of the costs of procurement to food-service operators except costs incurred by them for management decisions in buying, and small clerical and physical handling costs, such as checking the order on arrival, and moving it into the stockroom. So, most food-service procurement costs are fixed figures. Although these costs decline as the frequency of ordering diminishes and the size of the order increases, the food-service operator cannot see and consider this in managing his inventory and buying operations. He is then faced with balancing these virtually fixed procurement costs against inventory carrying costs which decline as he buys more frequently and in smaller order sizes. In this way the incentive of the traditional pricing system is to encourage the food-service operator to follow extreme hand-to-mouth buying practices. These practices may cause his food costs to be unreasonably high, but he has no incentive not to follow them because he can exercise no control over his procurement costs.

A system of graduated quantity discounts on the individual order, which reflects the wholesaler's costs of servicing orders of different sizes, gives the food-service operator information on procurement costs. It gives the food-service operator some control over his food costs, and allows him to balance procurement costs against carrying costs to achieve the lowest food costs for his particular operation. 14/ It gives him freedom to plan which he does not have under traditional pricing.

This might cause the food-service operator to carry a somewhat larger inventory than when he has opportunity to consider inventory carrying costs only. But for the capable and careful operator, such added inventory would not be excessive in terms of costs. If the food-service operators' storage facilities accommodate only hand-to-mouth buying, storage space may be inadequate for the best size inventory, when procurement costs are considered. Under these conditions, the quantity discount may require excessive inventory. If so, management judgment would suggest the food-service operator provide additional storage facilities or forego the discount.

14/ Food costs here are considered to include costs of carrying inventory.

Food-service operators may realize substantial savings from use of the quantity discount with no increase in inventory. Respondents in this study bought from more than four grocery wholesalers on the average; half of these respondents bought 56 percent or less of their grocery requirements from their main grocery wholesaler. Thus, they distributed their purchases, breaking potentially large orders into small ones. Traditional pricing practices do not discourage this. Traditional pricing encourages subdivision of orders to maintain contact with and pressure upon several wholesalers. The graduated quantity discount on individual orders enables the food-service operator to evaluate the cost of such distribution of orders. If larger order sizes result, savings would be achieved with no increase in inventory.

Sixteen percent of the respondents who opposed quantity discounts on individual orders preferred to get discounts regardless of order size. Generally, the competitive earnings level in institutional grocery wholesaling does not allow discounts that do not accrue from savings in operating costs at the wholesaler level.

That the quantity discount on individual orders would encourage bad buying practices was a reason given by 13 percent of these respondents. This is in contrast to 4 percent of the other group of respondents who said it would improve buying practices. From the standpoint of inventory management, the quantity discount would stimulate improved buying practices, for reasons already cited. These would be improved practices in the sense that they would give the operator lower overall food costs. But the operator cannot realize the greatest advantage from the quantity discount without concentrating the bulk of his business with one wholesaler. He loses contact with other wholesalers, and loses comparison shopping as a routine part of his buying operation. As a substitute, the prudent food-service operator would establish a systematic procedure for periodic evaluation of the composite services, merchandise offering, and pricing policies of his wholesaler in comparison with other wholesalers. Without such periodic evaluation, the quantity discount could lead to bad buying practices.

One respondent suggested a second aspect of bad buying practices that could develop from using quantity discount pricing. This is the temptation to overbuy or buy things not needed in order to realize larger discounts. Prudence is his only weapon here.

Three percent of these respondents objected to the quantity discount because it would work hardships on the small operator. Many small operators would gain from such a system, as they spaced their orders and concentrated with one wholesaler. However, the smallest operators would not gain; the plan would result in higher food costs for many of them. But whether other independent and small chain food-service operators can continue to subsidize these very small operators is questionable.

Quantity Discount Plans Used by Wholesalers Supplying Food Stores

Types of discounts are so numerous and diverse that the term "quantity discount" is apt to bring to mind different things to different people. The term "cost-plus" has the same weakness of meaning. The term "graduated quantity discount on the individual order" is used here to mean something similar to the pricing structure employed by many grocery wholesalers supplying food stores. Examples of two such systems are given to illustrate how these plans work.

The first plan is that of a large wholesale grocery company which offers extensive management and merchandising services to its affiliated independent food-store customers. Although this company arranges the supplying of all lines of merchandise, the pricing schedule is:

Affiliated stores in the voluntary group or chain are charged $9.50 a week for supervision, management, and counseling service and 3 percent for buying, warehousing, and administration on the first $1,500 purchased each week; 2 1/3 percent on the next $500; 2 percent on the next $500 and 1½ percent on weekly purchases over $2,500. The percentage cost of the wholesaling service to the retailer declines with the volume of weekly purchases (table 31) (7). This wholesaler also charges a delivery fee.

Table 31.--Cost of servicing retail stores under one graduated pricing plan

Wholesale cost of weekly purchases	Weekly cost to retailers			Percentage cost to retailer over cost to wholesaler
	Fixed charge	Variable fee	Total	
Dollars	Dollars	Percent	Dollars	Percent
100	9.50	3.0	12.50	12.5
500	9.50	3.0	24.50	4.9
1,000	9.50	3.0	39.50	4.0
1,500	9.50	3.0	54.50	3.6
2,500	9.50	3.7	75.15	3.0
5,000	9.50	2.1	113.65	2.3
10,000	9.50	1.8	188.65	1.9

One weakness of this plan is the cumulative basis of weekly purchase volume. This has caused great expense to the wholesaler because customers buy multiple small orders during any given week, which are all added together. The wholesaler has made extensive cost studies to develop an equitable means of correcting this situation.

The second plan is used by a small grocery wholesaler who has a modest program of management and merchandising assistance for affiliated food stores that he supplies. The customer stores are in a concentrated area. The fee schedule (table 32) used by the wholesaler is:

1. On orders up to $500, the fee is 5 percent of the value of the order, plus 2 percent of $500 minus the value of the order.

2. On orders of more than $500 the fee is 5 percent of the value of the order, less whichever of the following yields the largest discount:

   a. 1 percent discount on the part of the order in excess of $500.

   b. $1\frac{1}{2}$ percent discount on the part of the order in excess of $600.

   c. 2 percent discount on the part of the order in excess of $1,200.

Table 32.--Cost of servicing retail stores under another graduated pricing plan

Value of the order	Cost to the retailer over invoice cost to the wholesaler	
Dollars	Dollars	Percent
50	11.50	23.0
150	14.50	9.7
300	19.00	6.3
500	25.00	5.0
1,000	44.00	4.4
3,000	114.00	3.8
6,000	204.00	3.4

While the system seems complicated, shortcut methods make calculation of fees on specific orders quite simple.

Because these are wholesalers supplying food stores, their fee structures are based on costs not comparable to the costs of institutional wholesalers. These food-store wholesalers obtain orders by order books. Broken-case shipments are either not allowed or special charges are made for them. Delivery is made at the tailgate of the truck. No credit is extended. All of these practices result in substantial savings in the wholesale operation.

These pricing systems illustrate the general structure of such systems. Both systems reflect the relative cost to the wholesaler of servicing different size orders and encourage concentration of the retailer's purchases with the wholesaler. Any increase in order size qualifies the retailer for a slightly larger discount, and any reduction in order size qualifies him for a slightly lower discount. The only pressure applied to the food-store buyer to buy larger orders is the pressure of costs, both procurement and inventory. But he is the sole judge, in the final analysis, of the order size that will yield him the lowest combined cost for his particular operation. It is immaterial to the wholesaler whether the food-store buyer buys in large or in small orders, because he sustains a loss on neither. However, the wholesaler wants a sound and competitive customer, to provide a continuing outlet for goods. Low merchandise cost is one aspect of this attitude, but only one. Of more importance are low overall merchandise and operating costs, and effective and efficient merchandising operations. This is why these wholesalers are willing and eager

to supply any necessary service for the food store to work with the wholesaler, and to compare alternatives carefully and thoroughly before he violates this obligation. But this obligation lasts only so long as the wholesaler effectively discharges his responsibility to the food store.

Payment Arrangements With Wholesalers

Wholesalers supplying food stores have reduced their operating costs by virtual elimination of credit, collections operations, and the financing of accounts receivable. A widespread practice among them is to require payment from the food store with a signed blank check attached to the order. To inquire into the feasibility of this or similar arrangements in institutional grocery wholesaling, the 350 respondents were asked to describe their payment arrangements with the main grocery wholesalers. The following tabulation shows these payment arrangements:

Terms	Percent of respondents
Monthly billing	71
Weekly billing	12
10 to 15 days after delivery	9
c.o.d.	6
Other and undetermined	2
Total	100

Monthly billing was the most common practice. These figures confirm practices reported by wholesalers in earlier research (2), and show the importance of credit in the operations and operating costs of institutional wholesalers. Would food service operators be willing to change this practice?

When the respondents were asked how they would feel toward a single weekly payment, where all deliveries made in a given week are paid for before the end of the following week, 66 percent said they would oppose it (table 33).

Table 33.--Attitudes of 350 respondents toward a single weekly payment for each week's deliveries

Attitude	Average	95 hotel food service	123 table service restaurant	44 cafeteria	25 employee	Other
	Percent	Percent	Percent	Percent	Percent	Percent
Unfavorable	66	79	62	57	60	69
Favorable	20	7	28	18	16	23
Indifferent don't know	14	14	10	25	24	8
Total	100	100	100	100	100	100

More nonchains favored the idea than did chains (24 compared with 11 percent). The proportion who favored the idea tended to diminish as their size of establishment increased: 24 percent of the small, 21 percent of the medium, and 18 percent of the large respondent establishments. The reasons given by 70 respondents favoring a single weekly payment for each week's deliveries are:

Reasons	Percent of respondents
Makes accounting easier	30
Pay in this way now	30
Bills should be paid promptly	25
Other and unspecified	25

The 30 percent who liked it because it would make accounting easier, said that "easier" meant that they would have more current information on the business. Although all sizes of establishments gave this reason, it was given more often by small establishments. None of the chains mentioned this reason.

The reason given by 231 respondents for opposing a single weekly payment for each week's deliveries are:

Reasons	Percent of respondents
More work involved in accounting	83
Prefer to pay monthly	11
It doesn't fit our operation	4
Deprives of operating capital	3
Company payment handled elsewhere	3
Prefer to pay cash as we go	1
Other	4

The 83 percent who opposed the idea because of increased accounting work, were concerned with the higher costs of more frequent check writings and mailings, and more frequent accounting entries. Problems which the system would introduce within their accounting systems were the principal concerns of those who said "It doesn't fit our operation" and "Company payment is handled elsewhere." Four respondents were opposed to the weekly payment because they prefer to pay c.o.d. Only 3 percent of the respondents who opposed the weekly payment gave the reason that it would deprive them of working capital. However, some of those who merely stated they preferred to pay monthly may have included this factor. Increased workload and cost in accounting remain the principal objections to a plan of weekly billing.

A wholesaler who chooses to install a weekly payment plan would also be motivated by cost considerations. Probably the principal saving would be in costs of financing accounts receivable. Such savings might be less than the added cost to the food-service operator. An analysis of comparative costs would determine which alternatives would best serve the common interests of food-service operators and wholesalers.

Favorable Environment for Trial

Better wholesaler services have proved highly successful for wholesalers supplying food stores. The feasibility of adapting these services to the different marketing situations of the food-service market depends upon the existence of a favorable environment. Several factors shown in this study indicate that the favorable environment does exist.

The respondents in this study have asked for improved sales service repeatedly. An order book provides an opportunity for rendering improved sales service. The rapid development of new products and convenience forms of all products accentuates the need for sales service of this kind.

Easy introduction of the graduated quantity discount on the individual order depends upon having a price-conscious clientele. These respondents show that they are keenly aware of the impact of food costs upon the effectiveness of their operations. They have shown that price is a determining factor in their purchasing operations. The primary reason given by 58 percent of the respondents who did not concentrate purchases with one wholesaler was "To obtain better prices." Many of them pointed out that the right quality of products was available from a number of sources. This left price as the main determining factor.

However, many respondents did not understand the effect such services as credit and frequent delivery of small orders have upon the wholesaler's business costs and upon the prices he must charge. One problem that wholesalers who attempt to improve services can expect to encounter is that of explaining why costs prohibit performing certain services under certain price structures.

Many respondents wanted merchandising and management assistance from wholesalers. In view of the general unfamiliarity of respondents with the idea of wholesalers providing such services, a substantial number of respondents expressed interest in them.

The respondents in this study reported a fairly strong interest in the preprinted order form and the quantity discount on the individual order. Many of the reasons given by those who opposed these plans misunderstood either the nature or the consequences of the plans.

Procedure for Trial

This study does not indicate the form in which improved services should be introduced. Certain questions remain to be answered. What form should the preprinted order form take and what information should it contain? How should the quantity discount be expressed and what should be its form? How should such sales personnel be selected and trained? How should such sales personnel be compensated and their performance be evaluated? What kinds of management and merchandising services should be offered and what priority should be given them?

These questions suggest that an experimental installation would be the most feasible introduction. This survey shows that substantial numbers of leading food-service operators would be willing to work with a wholesaler in developing and testing services, provided they understood his objectives.

A pilot study with better services has been started in one institutional wholesale grocery business. The first step is to try to reduce the costs of warehousing operations, delivery, and office routines. Upon completion of the cost reduction efforts in these three areas, a preprinted order form and a quantity discount on individual orders will be introduced. This program will be tried with a selected group of customers, the program will be modified where needed, and then extended to all the customers of this wholesaler. At the same time, efforts will be made to develop a program to help customers with menu planning, inventory control, and recipe service. As greater mutual confidence is developed, a cost control, remodeling, and layout assistance program will be developed.

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APPENDIX

Tables 34 through 40 give detailed breakdowns of the opinions of the 350 respondents. The reader is reminded that, in some cases, totals are more than the number of respondents, because some respondents gave more than one answer to a question.

Table 34.--[Primary and secondary] Respondents' reasons for not concentrating grocery purchases with main grocery wholesaler, [related to percentage purchased from him.]

Percent purchased from main grocery wholesaler	Price	Variety and quality	House policy	Miscellaneous reasons: Service	Friendly Relations	Other 2/ and no answer	Total	Total	Total 1/	Price	Variety and quality	House policy	Misc.
	Primary reasons												
	No.	No.	No.	No.	No.	No.	No.	No.	PERCENT				
1 - 10	4	0	1			2	2	7	100	57	0	14	29
11 - 20	8	3	4		1		1	16	100	50	19	25	6
21 - 30	19	6	3		2		2	30	100	63	20	10	7
31 - 40	26	12	4	1			1	43	100	61	28	9	2
41 - 50	33	11	8		2	1	3	55	100	60	20	15	5
51 - 60	28	16	2					46	100	61	35	4	0
61 - 70	17	9	2					28	100	61	32	7	0
71 - 80	18	17	3	1	1		2	40	100	45	42	8	5
Total	153	74	27	2	6	3	11	265	100	58	28	10	44
	Secondary reasons												
1 - 10	0	0	1	0	0		0	1	14	0	0	14	0
11 - 20	0	3	3	0	0		0	6	38	0	19	19	0
21 - 30	0	6	3	2	3		5	14	47	0	20	10	17
31 - 40	4	14	4	1	0	1	2	24	56	9	33	9	5
41 - 50	2	18	1	4	1		5	26	47	3	33	2	9
51 - 60	3	11	6	5			5	25	54	6	24	13	11
61 - 70	3	4	1	2			2	10	36	11	14	4	7
71 - 80	3	7	1	1			1	12	30	8	18	2	2
Total	15	63	20	15	4	1	20	118	44	6	24	8	6

1/ Total percent is based upon 265, the total number of respondents for both the primary and the secondary reasons.
2/ Includes one "no answer".

Table 35.--Views of respondents on quality information on canned-goods labels

Commodity	Information is--		Total	Information is--		Don't use commodity
	Adequate	Not adequate		Adequate	Not adequate	
	Percent	Percent	Percent	Number	Number	Number
Tomatoes	76	24	100	252	80	18
Peach halves	77	23	100	243	72	35
Green beans	77	23	100	213	63	74
Fruit cocktail	79	21	100	196	52	102
Asparagus	84	16	100	180	34	136

Table 36.--How grocery wholesalers and packers could help retailers to buy the right quality of canned fruits and vegetables for their needs

	Total	Kind of establishment 1/		Size of establishment 1/		
		Chain	Independent	Large	Medium	Small
Number of respondents	350	101	245	154	56	123
Number of responses	402	118	279	178	62	144
	Percent	Percent	Percent	Percent	Percent	Percent
Ways to help operator buy right qualities						
Give improved product information:	42	41	43	44	26	47
Detailed, standardized labeling of contents	21	18	23	20	15	25
Standardized grade	13	14	12	16	8	12
Standardized quality	8	9	8	8	3	10
Improved sales service:	26	30	24	30	25	25
Better knowledge and presentation of product	10	11	9	10	8	10
Better knowledge of customers needs or specifications	3	2	4	6	0	3
Convey more information on new developments	5	8	4	6	8	4
Give samples for testing	7	9	6	7	8	7
Keep customers informed on prices	1	0	1	1	1	1
Other	2	3	1	2	0	3
Nothing, this is customer's responsibility	21	16	23	17	34	19
Don't know, undetermined	7	7	8	6	13	5
Don't use canned foods	2	3	1	1	2	1
Total responses	100	100	100	100	100	100

1/ The total includes 4 operators whose kind of establishment was undetermined and 17 whose size was not determined.

Table 37.--Respondents' opinions on helpfulness of different forms of portion-count information

Preferred receiving information	Forms in which respondents received information					
	Total all forms	Pamphlets sheets, etc.	Printed on label of can	Verbally	Printed on the case	Other
	No.	No.	No.	No.	No.	No.
Total	224	148	133	30	25	8
Printed on the label of the can	103	51	91	12	12	1
Pamphlet, sheets, etc.	66	64	15	2	4	2
Verbally	14	1	6	14	0	0
Printed on case	2	1	0	0	2	0
Demonstrations	1	1	1	0	1	1
Magazines	1	1	0	0	0	1
Recipes	1	1	0	0	0	1
Slide rules	1	1	0	0	0	1
All are helpful	8	7	8	0	5	1
None are helpful	27	20	12	2	1	0
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
Total	100	100	100	100	100	100
Printed on the label of the can	46	35	68	40	48	12
Pamphlet, sheets, etc.	29	43	11	7	16	25
Verbally	6	0.7	5	46	0	0
Printed on case	1	0.7	0	0	8	0
Demonstrations	0.5	0.7	1	0	4	13
Magazines	0.5	0.7	0	0	0	12
Recipes	0.5	0.6	0	0	0	13
Slide rules	0.5	0.6	0	0	0	12
All are helpful	4	5	7	0	20	13
None are helpful	12	13	8	7	4	0

Table 38.--Usefulness of new recipe information, supplied by the main wholesaler, to those food-service operators who received such information

Kinds of new recipe information	Opinions of respondents					Opinions of respondents				
	Total	Useful	Not useful	Don't know; undecided	No response	Total	Useful	Not useful	Don't know; undecided	No response
	Number	Number	Number	Number	Number	Percent	Percent	Percent	Percent	Percent
Total, all kinds	132	106	17	6	3	100	80	13	5	2
Recipe for new products	22	21	0	0	1	100	95	0	0	5
Recipe booklets, cards, brochures	64	55	7	2	0	100	86	11	3	0
Recipes from manufacturers	36	28	6	1	1	100	78	16	3	3
Other kinds	26	20	2	3	1	100	77	8	11	4
Other recipe aids	8	7	1	0	0	100	88	12	0	0
Suggested uses of products	7	5	1	0	1	100	72	14	0	14
Demonstrations	4	3	0	1	0	100	75	0	25	0
Magazines & periodicals	3	3	0	0	0	100	100	0	0	0
Recipes from other restaurants	1	1	0	0	0	100	100	0	0	0
Other forms	3	1	0	2	0	100	33	0	67	0
Undetermined	3	1	2	0	0	100	33	67	0	0

Table 39.--Usefulness of new recipe information by size and establishment and relationship to subject wholesalers

Whether received; usefulness	All cities: Size of establishments: Large	Medium	Small	Undetermined	Total	All cities: Size of establishments: Large	Medium	Small	Undetermined	Total
	Number	Number	Number	Number	Number	Percent	Percent	Percent	Percent	Percent
Received recipes	52	22	56	2	132	100	100	100	100	100
Useful	37	19	48	2	106	71	86	86	100	80
Not useful	11	3	3	0	17	21	14	5		13
Other	4	0	5	0	9	8	0	9		7
Didn't receive recipes	102	34	67	15	218					
Total	154	56	123	17	350					
	All respondents except those who were customers of subject wholesalers					All respondents except those who were customers of subject wholesalers				
Received recipes	38	15	46	2	101	100	100	100	100	100
Useful	24	12	42	2	80	63	80	91	100	79
Not useful	11	3	1	0	15	29	20	2	0	15
Other	3	0	3	0	6	8	0	7	0	6
Didn't receive recipes	87	30	59	14	190					
Total	125	45	105	16	291					
	Cities where subject wholesalers operated					Cities where subject wholesalers operated				
Received recipes	17	10	16	0	43	100	100	100	0	100
Useful	15	9	11	0	35	88	90	69	0	81
Not useful	0	1	2	0	3	0	10	12	0	7
Other	2	0	3	0	5	12	0	19	0	12
Didn't receive recipes	22	5	12	2	41					
Total	39	15	28	2	84					
	Customers of subject wholesalers					Customers of subject wholesalers				
Received recipes	14	7	10	0	31	100	100	100	0	100
Useful	13	7	6	0	26	93	100	60	0	84
Not useful	0	0	2	0	2	0	0	20	0	6
Other	1	0	2	0	3	7	0	20	0	10
Didn't receive recipes	15	4	8	1	28					
Total	29	11	18	1	59					

Table 40.--Relationship between respondents' attitude toward preprinted order form and their percentage concentration with main grocery wholesaler

Percentage of grocery expenditures purchased from main grocery wholesaler	Attitude				Attitude			
	Total	Fav.	Unfav.	Indif.	Total	Fav.	Unfav.	Indif.
Percent	No.	No.	No.	No.	Pct.	Pct.	Pct.	Pct.
1 - 30	57	9	41	7	100	16	71	13
31 - 50	94	22	57	15	100	23	61	16
51 - 70	74	20	45	9	100	27	61	12
71 -100	122	41	64	17	100	33	53	14
Undetermined	3	1	2	0	100	33	67	0
Total - average	350	93	209	48	100	26	60	14

Table 41.--Usual order size of single-unit establishment, by size of establishment

Annual business volume				
$50,000 - $99,000	$100,000 - $299,999	$300,000 - $499,999	$500,000 - $999,999	$1,000,000 and over
Dollars	Dollars	Dollars	Dollars	Dollars
25	25 : 150	38	47	150
25	25 : 150	40	60	200
35	35 : 170	50	80	250
50	47 : 170	80	100	250
70	47 : 175	88	100	300
75	47 : 175	100	100	400
75	50 : 188	100	100	400
75	50 : 200	100	110	400
100	57 : 200	100	112	450
100	58 : 200	100	150	500
100	60 : 200	100	150	500
100	60 : 200	105	175	500
112	60 : 200	112	200	600
125	62 : 200	116	200	600
138	65 : 200	125	250	1,250
162	70 : 220	125	250	2,000
166	75 : 250	125	250	2,500
188	75 : 250	150	250	
200	75 : 250	150	250	
250	93 : 250	200	250	
460	93 : 275	200	300	
	100 : 300	250	300	
	100 : 350	250	300	
	100 : 350	250	350	
	100 : 375	250	350	
	100 : 400	250	400	
	100 : 650	275	400	
	100 :	300	400	
	100 :	350	400	
	100 :	400	470	
	100 :	400	500	
	100 :	500	500	
	100 :	500	500	
	100 :	2,500	600	
	100 :		1,000	
	116 :			
	125 :			
	125 :			
	150 :			
	150 :			
	150 :			
	150 :			
	150 :			
	150 :			
	150 :			

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